

BUTTE COUNTY

Report by
OVERSIGHT ADVISOR

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Prepared by
Richard L. Cutting
For
California State Department of Finance
DECEMBER 1989

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SUMMARY

This review of the County of Butte was the result of an agreement between the Director of Finance and the County resulting in a temporary deferral of the \$2.8 million owed by the county for Schedule A fire protection provided under contract by the California Department of Forestry during fiscal year 1988-89 and payable during the subsequent fiscal year. The county, in compiling the fiscal year 1989-90 fiscal year budget, found that they did not have sufficient revenues to fund their basic programs. The deferral allowed the county sufficient funds to balance this budget. The review was carried out by an independent oversight advisor appointed by the Director who examined the records and activities of the county and met with officials of the county and state departments to ascertain the magnitude of the problem. This report covers the findings and recommendations of the oversight advisor. They have not been endorsed by either the Director of Finance or the County of Butte. However, it is the intention of the author that they be the basis for the development of an agreed to plan which would result in the the county regaining its financial stability and be a guidepost for its future growth. The report was scheduled to be completed by January 1, 1990.

FINDINGS

REVENUE

1. Butte County, at the time of the passage of Proposition 13, was in excellant financial condition. The county had a history of conservatism both in the levying of property tax for county programs and the level of expenditures included in its annual budgets. In FY 1977-78, Butte County received 26% of the total property tax dollars generated within the county and as of June 30, 1980, had fund balance reserves of \$13.7 million.
2. The passage of Proposition 13 and subsequently AB 8 (Chapter 282, Statutes of 1979) locked the county into this percentage and actually lead to its decrease in FY 1987-88 to 23% of the total property tax dollars collected.
3. The population growth of the county during the period 1980-81 to 1989-90 exceeded the statewide average (2.25% verses 2.14% per year), however, the growth in assessed valuation (AV) during this same period was less than the statewide average (8.65% versus 11.18%). The difference in AV growth was attributed to the fact that the AV growth allowed under Proposition 13, including new construction and transfers, in Butte County, was offset by lower reappraisals required by statute and calamity relief. In addition, the county lost AV because of the activities of two cities within Butte County, Oroville and Chico, who have been active in redevelopment projects and in annexations of unincorporated areas to the cities. Approximately 90% of Oroville and 70% of the incorporated city of Chico are under redevelopment.

4. Sales tax subvented to the county, over the last nine year period (FY 80-81 to FY 88-89), has not grown at all. County records disclosed that this revenue source actually decreased in total by \$16,000 during this period and a zero growth rate is predicted for 1989-90. The major retail centers in Butte County are located within the incorporated areas especially the city of Chico. Chico has a history of annexing retail centers and only when the North Valley Shopping Center was annexed did the County act resulting in an agreement that 5% of Chico's sales tax revenue annually would be paid to Butte County. However, it will be some years before the revenue generated by the agreement offsets the initial property tax loss to the county. The cities have been successful in their annexation activities because all the unincorporated areas of the county and the Town of Paradise are on septic tanks. Since the city of Chico owns all of the sewer distribution lines, to hook into the sewage disposal plant, an area must either be annexed or pay for its own sewer distribution lines to the sewage disposal plant, an expensive alternative.

5. The county was slow in adopting a policy of levying fees for permits and licenses for various activities within the county. The county has recently adopted the "fee for service" concept but has lost considerable revenue in the ensuing years it was not in effect.

6. The county has had a successful program in the investment of its surplus funds. However, this revenue source will soon decrease as the county's reserve funds are depleted at the end of FY 1989-90.

7. The 1989-90 budget was balanced by utilizing as revenues the \$2.8 million deferral of the fire protection amount owing to the state and the application of the \$2.1 million allocation from the state for Trial Court Funding. The judges were allocated \$900,000 of this amount during the current year with the remaining \$1.2 million used to fund other county programs.

8. The Board of Supervisors, primarily to carryout Statutorily required programs, have had to authorize expenditures which have increased by 100% over the last nine years. During this same period, revenue raised through county tax collections efforts increased by only 58.9%. The differential was covered by the application of fund reserves. A number of attempts were made by the county, during these years, to raise additional taxes but these proposals were defeated by the electorate. Currently the county has ballot proposals pending for the June 1990 ballot.

9. Butte County was given the opportunity during 1984 and again in 1986 to site a Department of Corrections Conservation Camp in the county (McCabe site). The camp would have generated annually about \$900 thousand in additional funds being added to the economy of the county. However, no mutually agreed to plan could be developed and the camp was never sited.

EXPENDITURES

1. Two expenditure categories, road operations and welfare, experienced the greatest percentage of growth during the nine year period 1980-81 to 1989-90. Road operations are generally covered by State Subventions from the Highway Users Tax. Welfare, on the other hand, is funded by revenues from the federal government, the state and the county's general taxes. The major welfare programs experiencing the most growth are Aid to Families with Dependent Children (AFDC) and General Relief (GA). One additional program which sustained major growth during this period was the Public Defender Program, totally supported by county funds.

2. The AFDC program in Butte County, during the last nine fiscal years, showed an increase in persons served of 159.9% as contrasted to a statewide increase in persons served in this program of 22.1%. While the county's share of the total cost of the program averaged about 5.5% annually during the period, the dollars expended by the county went from \$711.8 thousand in 1980-81 to \$3.041 million in 1989-90, an increase of 322.2%. The grant level utilized by this program is established by Federal and State statutes and are uniform statewide with a statutory formula for cost sharing by all three governmental entities.

3. The GA program, which is completely county funded, covers welfare recipients who are not eligible for a Federal or State program. The grant level utilized is theoretically set at the county's option. However, a series of court cases, the most recent resulting in a consent agreement dated March 24, 1989, set the basic grant limit for Butte County at \$295 per month plus colas. While the agreement included provisions for a voucher system and a statement that no further lawsuits would be filed during an agreed to period, the grant did increase substantially the cost of the Butte County GA program. Statistically, the number of persons served annually has increased from 116 in 1980-81 to 825 in 1989-90. This represents an increase of 611.2% over this period as contrasted to a statewide increase in person served of 224.4%. More significantly, the annual cost of the GA program to the county rose from \$104.4 thousand to \$2.421 million, an increase of over 2000%.

4. The most significant graphic resulting from these statistics is the percentage of the county's discretionary tax revenue needed to support the AFDC and GA programs. In 1980-81, the county's share of cost was \$816.2 thousand which represented 3.981% of the county's General Purpose Revenue (\$20.5 mil) as defined in Government Code 16265.2. For 1989-90, the county's share has grown to \$5.462 million about 17.123% of this GPR base which has grown to \$31.9 million. The county welfare director estimated that 21% (37,000 persons) of the total population of Butte County was receiving some type of social service. The reasons advanced for these growth indices was the migration of persons from other areas of the state attracted by less expensive housing and the ability to live satisfactorily on a limited income. This also supports the statistic revealing that Butte County has 16.5% of its population over age 65 years as contrasted to a statewide average of 11.2%.

5. The Public Defender program during FY 1980-81 required \$290,000 in county funds. For FY 1989-90, the expenditure level for this program is estimated to be \$1,458,000. The county has initiated changes to curtail the growth of this program. However, the future expenditure level is expected to continue to be at least at the same level as FY 1989-90.

6. The lack of a revenue base to cover the proposed expenditures has been felt in all other programs of a discretionary nature in the county. This includes Libraries, which have been closed, animal control activities curtailed, and heavy caseloads being carried by employees in all county activities. It has resulted in no new positions being approved; a salary scale which is amongst the lowest in the state; the heavy turnover of employees; a doubling in the number of grievances and employee appeals filed; and difficulty in the recruiting of replacement staff. The main entities receiving these former county employees are state agencies and cities both in and out of Butte County. The heavy turnover affects the efficiency and effectiveness of the county programs and requires continual training of staff by supervisors.

COUNTYWIDE

The following is an outline of the major problem areas observed by the oversight advisor which should be included in any plan for improvement:

1. The development of a Regional Sewage Disposal Plan for the county and the town of Paradise.
2. The development of a short term solution for the inadequate county jail.
3. The development of an additional level of support for the Superior and Municipal courts and county elected officials whose activities benefit cities and other governmental units but who are totally supported by county and state funds.
4. The development and implementation of an adequate and supportive planning operation.
5. Resolution of the responsibility for the six memorial halls in the county.
6. Development of a solution to the water rights of the county to 27,500 acre feet of water from the Oroville Dam.
7. Agreement be reached regarding the limitations placed upon the expansion of a revenue base for Butte County by Proposition 4, the Gann Limit.

SUMMARY OF RECOMMENDATIONS

For the benefit of the reader, all of the recommendations of the oversight advisor that are discussed in detail in this report are enumerated here. However, because the complexity of the subject matter may not be readily apparent, the reader is encouraged to refer to the full text.

SHORT TERM RECOMMENDATIONS

The most urgent need in the short term is to establish a mechanism to increase the revenue base, including both state and local funds, available to Butte County while more permanent solutions are developed.

Alternatives to be considered by the State of California

- a. Provide to Butte County its full entitlement utilizing the formulas prescribed for the Revenue Stabilization Program (Chapter 1286/87) and as contained in the annual Budget Bill of the State. Estimated net increase to Butte County's Revenue Base for 1990-91 is \$690,500.
- b. Provide in the State Budget Bill for 1990-91 and 1991-92, provisions for the buy-out of the county share of cost for the AFDC and GA programs which exceed 3.981% of the county collected revenue base as determined by the State Controller for that fiscal year. Utilizing FY 1989-90 statistics, this would increase the county's discretionary income \$4.2 million.
- c. Propose legislation, for introduction into the 1990 Legislative Session, which would provide for a loan of \$2.8 million payable over ten years with terms in compliance with Section 16351 of the Government Code. Enactment of this legislation would reduce the county's expenditures for 1990-91 by approximately \$2.5 million.

d. Establish by Executive Order, a small county (under 200,000) task force to assist rural counties in solving their problems. Butte County would serve as the pilot for this group. Estimated cost to the state would consist of additional travel costs and the effort of redirected state staff. Special attention should be directed toward the review of the growth of the Public Defender program within the counties and a determination made if a State subvention might be in order. (Possible Butte Co. effect \$1 million)

Alternatives to be considered by the County of Butte

- a. Expand the county revenue base by proposing an alternative tax source which would include a tax effort by the citizens of incorporated cities. The alternative to the current tax proposals suggested by the oversight advisor is a 0.5% tax upon all retail transactions (sales tax) dedicated to specific purposes and established in accordance with the provisions of Assembly Bill 999 (Chapter 277, Statutes of 1989). The tax requires a 2/3 majority vote of the authority set up by the Board and approval of a majority of the voters of the county. If the sales tax was enacted to commence on January 1, 1991 (after expiration of the 0.25% special earthquake tax), the county's revenue base would increase \$1.5 million for FY 1990-91 and \$6.0 million annually thereafter.
- b. Transfer the responsibility for supporting all of the libraries, except for the central coordinating activity, to the incorporated cities in which they are sited. Attempt to gain financial support for the early payout of the library bonds to save \$600 thousand in interest. Estimated annual savings to the county for support expenditures \$300,000.
- c. Establish a special county planning task force to receive input from all groups interested in developing solutions to the problems facing Butte Co.

Alternative to be considered if those suggested are unacceptable

- a. Establish, through legislation introduced into the 1990 Legislative Session, a ten million dollar (\$10,000,000) loan fund for Butte County payable from the General Fund and provide for the appointment by the Governor of a Trustee to administer this fund.

LONG TERM RECOMMENDATIONS

Alternatives to be considered by the State of California

- a. Establish a permanent State unit to be responsible for coordinating and working with the various counties to carry out the many laws and regulations promulgated at the state and federal level.
- b. Establish, by Executive Order, a special task force to review the provisions of AB 8 (Chapter 282, Statutes of 1979) and prepare a report covering suggested changes to its provisions as applicable.

Alternatives to be considered by the County of Butte

- a. Establish an Ad-Hoc Committee to improve the communication between all segments of government in Butte County and the electorate.
- b. Through improved planning, expand the industrial tax base of the county.

OVERVIEW AND SCOPE OF REVIEW

The County of Butte Officials contacted the State Department of Finance in the summer of 1989 when, upon compiling the proposed budget for the county for fiscal year 1989-90, they became aware that the available revenue, including any carryover fund balances, would not cover the anticipated expenditures for the fiscal year. The California State Constitution requires that a balanced budget be approved by the Board of Supervisors of any county as well as the budget enacted annually by the State Legislature. The County Officials declared that the budget could not be reduced any further and that the County was considering filing for Bankruptcy under Chapter 9 of the Federal Statutes.

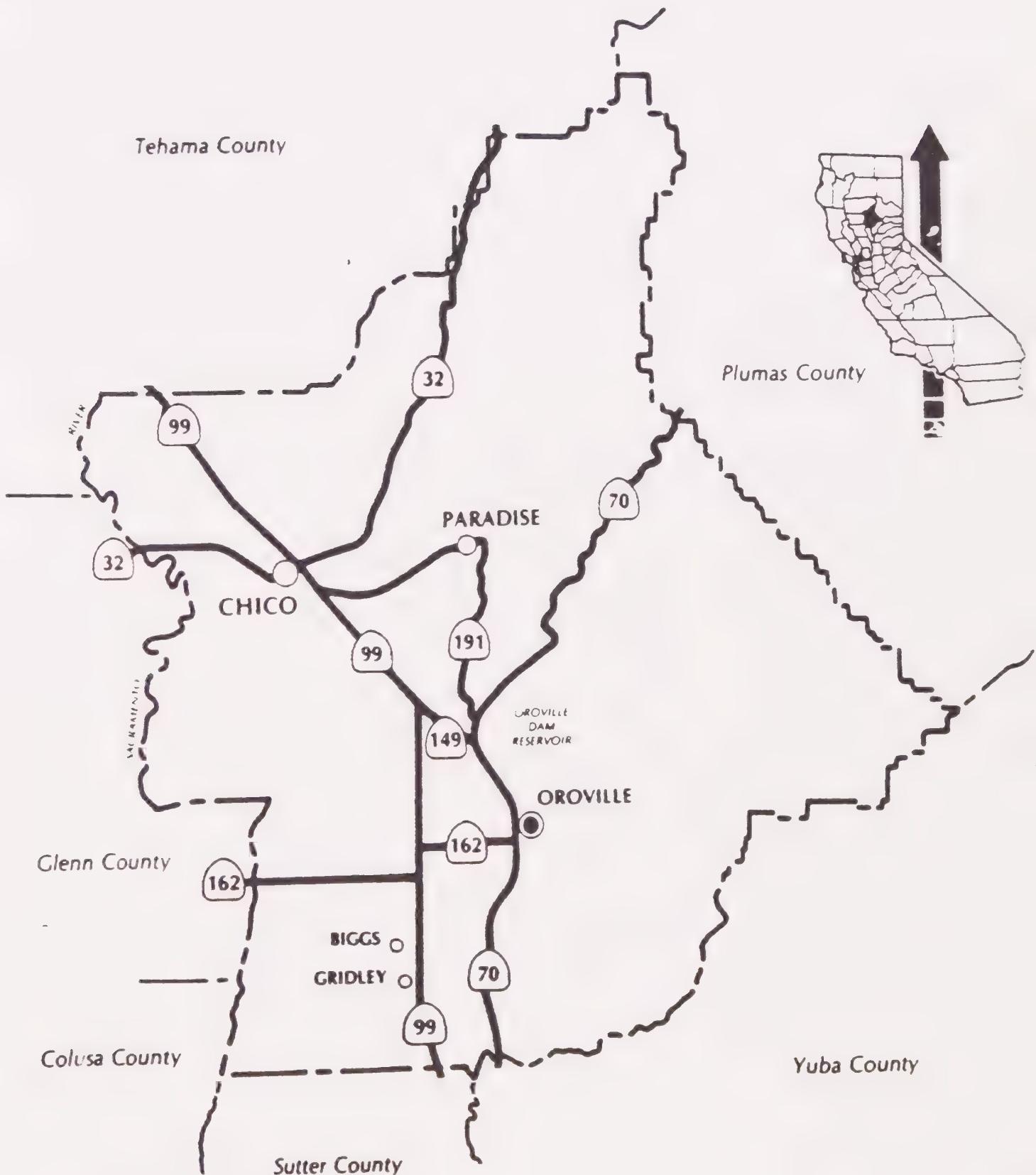
While there has been some examples of local school districts seeking protection under this Chapter, the most recent example being the Lassen Community College District, there has been no record of a California County seeking this type of remedy. In the case of Lassen Community College, the reason for the filing could be traced to a specific action involving a waste disposal plant. The County of Butte involves the entire governance of a political body under the direct supervision of the State. Since there was no precedent for such an action and because the State Department of Finance felt the need to explore any and all alternatives which might be available, an agreement was executed between the State and the County to delay the payment, during fiscal year 1989-90, of the \$2.8 million owed by the county for Schedule A fire protection provided under contract by the California Department of Forestry (CDF). Included in the agreement was the provision that an oversight advisor be appointed to carryout a review of the budget and activities of Butte County and prepare a report by January 1, 1990 containing findings and recommendations which could be used in the development of a plan to extricate the county from its financial predicament. It is the position of the department that existing options under the law are available to alleviate the problems facing this county. The purpose of this report is to present an analysis of the findings of the review of the county's programs and plans by the oversight advisor and to present recommendations and possible options to be considered toward solving the problems which have been surfaced.

AREA PROFILE (a)

Butte County is situated on the east side of Northern California's Sacramento Valley. The surrounding counties include Plumas on the northeast, Yuba on the southeast, Sutter and Colusa on the Southwest, Glenn on the west, and Tehama on the northeast. The county covers 1,675 square miles.

The county spans both valley and mountains with elevations varying from 60 to over 7,000 feet resulting in a considerable variation in climate and topography. The portion of the county lying in the Sacramento Valley is agricultural which is one of the main industries of the county. Grains are the most important crops, with rice accounting for about 25% of the dollar value of the county's agriculture production. Fruits and nuts are the second most important crops, principally almonds, prunes, peaches and walnuts.

Metropolitan Statistical Area (BUTTE COUNTY)



The five incorporated cities in Butte County are Chico, Oroville, Paradise, Gridley and Biggs. Chico is the largest city in the county and is the urban center for the entire area. The city contains the major retail shopping centers utilized by the surrounding area and the California State University Chico, with an enrollment of about 13,000 students. In addition, Bidwell Park in Chico is the third-largest city park in the world. The park extends 12 miles starting from the university campus along both sides of Big Chico Creek.

Oroville, the county seat and third largest city, is located near the site of the Oroville Dam, the world's largest earth-filled dam. The major industries of the Oroville area beyond government services, are agriculture, lumber and wood products, food processing and services relating to recreation. Located near Oroville are the farming and food-processing communities of Biggs, Palermo, Richvale and Gridley.

The town of Paradise was incorporated during 1979 and is the second largest city in Butte County. The town is located in a forested area on a ridge located about 16 miles northeast of Chico. The town of Paradise is mainly a residential community with its citizens employed in Oroville or Chico which is accessed by the Skyway freeway. It should be noted that the town of Paradise and the unincorporated area of the county do not have access to a sewer system and must entirely rely upon septic tanks.

The following is a population profile of the County of Butte:

Population of the County and Selected Cities
1-1-81 1-1-85 1-1-89 (b)

Subdivisions	1-1-81	1-1-85	1-1-89	Percent of Change
Total	146,900	160,300	176,700	20.28%
Biggs	1,390	1,450	1,480	6.47%
Chico	27,650	30,950	36,450	31.82%
Gridley	3,990	4,280	4,260	6.76%
Oroville	9,100	9,900	10,550	15.93%
Paradise	22,650	24,050	26,250	15.89%
Balance of County	82,100	89,700	97,700	19.00%

a/EDD Annual Planning Information publication 1988-89 - Butte
b/Department of Finance Demographic Report E-4.

STUDY PLAN AND EXECUTION

To determine the extent of the financial problems encountered by Butte County, site visits were arranged and interviews held with the appropriate officials of Butte County and the City Officials of the major cities of Chico, Oroville and Paradise. A list of the officials interviewed and their respective titles are included in Exhibit A. In addition, a review was made of the budget documentation of the county for the last ten years to develop trends and analysis sheets to be used by the oversight advisor.

To insure that the record keeping of the county was reasonably accurate and that the methodology utilized in the calculation of the property tax revenue was correct, Department of Finance staff from the Audits and Program Evaluation units were sent to the county to work with the oversight advisor and county staff. While these reviews should not be construed as a complete audit of the county operations, utilizing a limited scope approach, assurances could be made that the county records were reasonably correct and that the property tax calculations were properly executed. Reports covering these limited scope reviews are attached as Exhibit B and C.

In addition to the interviews with staff, site visits were made of the major activities carried out by Butte County. The intent of these visits was not only to try to determine how these activities were being carried out but primarily to acquaint the oversight advisor with the extent of these activities and their relationship to the services rendered to county residents.

Upon completing the site interviews and visits, contacts were made with various State staff responsible for the various programs and activities encountered in Butte County. The basis for the observations and recommendations contained in this report are these reviews along with an analysis of the records of the county and a review of the various publications and statutes relating to county programs and activities.

ANALYSIS OF BUTTE COUNTY'S PROGRAMS AND PLANS

The following analysis is based upon a review of the records and documents received during site visits to Butte County and upon testimony received during interviews with both county and city officials.

REVENUE

The ability of any public or private enterprise to carry out its programs and policies depends upon the level of revenues it is able to generate. A California county receives most of its revenue from property tax levied against both secured and unsecured property within its boundaries; sales tax generated within unincorporated areas within the county; from the issuance of permits and fines; from interest received from the investment of excess funds within its treasury; and from grants received from other governmental units particularly the State of California to carryout statewide programs. These grants or subventions often require that the county receiving the state or pass-through federal funds provide matching county funds as a provision for receiving these funds.

Prior to the passage of Proposition 13 by the California electorate in 1978, county governments were allowed to raise the revenue to balance their expenditure programs by passing county ordinances applying a county tax rate to the assessed valuation within the county in an amount sufficient to raise the necessary revenue needed. The passage of this Constitutional initiative changed these ground rules and placed specific restrictions upon the ability of county governments to adjust assessed valuation levels and property tax rates. The California Legislature subsequently passed implementing legislation notably Assembly Bill (AB) 8 (Chapter 282, Statutes of 1979) which defined the methodology for apportioning the property taxes collected under the restrictions contained in Proposition 13.

Butte County, at the time of the passage of Proposition 13, was in excellant financial condition. The county had a history of conservatism both in the levying of property tax for county programs and for the level of expenditures included in its annual budgets. In Schedule A, it is revealed that in FY 1977-78, Butte county received 26% of the total property tax dollars generated within the county. The balance was distributed to cities, school districts and special districts. This contrasted to a statewide average of 30% which was received by other counties. Due to the conservatism of the county, utilizing this percentage split, the county had fund balance reserves of \$13.7 million (which included a reserve for encumbrance) as shown on the county's financial statement as of June 30, 1980.(Schedule B) The legislation, AB 8, locked the county into this percentage and as shown further on Schedule A, the percentage received by Butte County for FY 1987-88 has actually decreased to 23% of the total property tax dollars collected within the county.

Butte County

Percent of Increase

Assessed Valuation (AV) - Population - Welfare Cases (Persons)

Year	Growth % Assessed Valuation (AV)		Growth % Population		Growth % Aid to Fam. (AFDC)		Growth % General Assistance	
	Butte Co.	Statewide	Butte Co.	California	Butte Co.	California	Butte Co.	California
(Beg. Bal.)			(143,851)	(23,668,145)	(7,268)	(1,516,872)	(116)	(29,282)
1980-81	16.5%	17.9%	2.1%	1.5%	NA	NA	NA	NA
81-82	13.5	13.6	2.8	2.1	29.0	3.0%	-0-	16.8%
82-83	11.0	12.0	2.1	2.1	5.0	1.5	13.7%	100.9
83-84	7.3	8.2	1.9	2.0	11.2	3.0	6.1	-10.3
84-85	6.9	10.2	2.0	2.0	4.6	0.4	32.8	3.1
85-86	6.9	10.2	2.2	2.4	8.5	1.8	124.2	9.6
86-87	5.9	9.3	2.1	2.4	11.2	3.4	53.2	12.5
87-88	5.7	10.0	2.8	2.4	11.5	1.4	24.4	2.7
88-89	5.9	9.5	2.3	2.4	12.3	2.4	(-1.2)	15.3
89-90	6.9	10.7	NA	NA	7.96	3.0	29.7	Not Avail
Average	8.65%	11.18%	2.25%	2.14%	11.25%	2.21%	35.36%	18.8%
1-1-89 Bal. (Cities)			(176,700)	(28,662,000)	(12,455)	(1,851,500)	(825)	(92,743)

1977-78
Distribution Prop. Tax Dollars
Butte Co. Statewide

City	4%	10%
County	26%	30%
School	62%	53%
Spec. Dist.	8%	7%

1987-88
Distribution Prop. Tax Dollars
Butte Co. California

City	8%	13%
County	23%	33%
School	56%	38%
Spec. Dist.	13%	16%

Source:

Assessed Valuation - State Board of Equalization - Research and Statistics.

Population - Dept. of Finance - Demographic Research - Report E-4.

AFDC and GA - Butte County - Final Budgets by year.

AFDC and GA - Statewide - State Dept. Social Services - Statistical Services.

Distribution Prop Tax Dollars - State Board of Equalization - Table 15 by year.

LR:BTTE\0178L

In addition, as further depicted on Schedule A, while the population growth within Butte County has exceeded the statewide average with an average growth rate of 2.25% versus the statewide average of 2.14%, the assessed valuation (AV) of the county during this same period (1980-81 to 1989-90) was less than the statewide average (8.65% versus the statewide average of 11.18%). The records of the County Assessor revealed that certain property within the county has experienced a decline in value in some years, primarily due to reappraisals required by statute and the application of calamity relief measures. The AV growth allowed under the provisions of Proposition 13 and attributable to new construction thus have been offset resulting in the lower than statewide average AV growth. The application of the allowable tax rate under Proposition 13 and the apportionment split resulting from AB 8, has resulted in a slow growth in the total property tax revenue available to the county. (Schedule B).

There are other factors which have also contributed to this slow growth in property tax funds available to the county. Two of the cities within the county, Oroville and Chico, have been active in redevelopment projects and in annexations of unincorporated areas to the cities. Approximately 90% of the incorporated city of Oroville is under redevelopment. For Chico, the percentage is about 70%. The application of the redevelopment formulas has reduced the amount of property tax which could be received by the county. These improvements will be beneficial in the future but directly affect the tax base of the county in the initial periods of redevelopment.

The lack of any growth in sales tax revenue has also been a major contributing factor. On Schedule B, the category "other taxes" contains that portion of the sales tax collected which is subvented to the county. An analysis of a nine year period disclosed that this tax source has not grown at all. In fact, the total sales tax revenue received by the county in FY 1988-89 was \$16,000 less than the amount received in 1980-81 and no growth is anticipated for FY 1989-90. The major retail centers in Butte County are located within the incorporated areas especially within the city of Chico which has had a history of annexing retail centers into the city.

One of the major reasons Chico has been able to accomplish these incorporations is the fact that a sewage disposal system does not exist to serve any of the unincorporated area within Butte or for the town of Paradise. This entire area is served by septic tanks. To hook into the sewage disposal system of Chico, the parcel must either be annexed into the city or pay for its own sewer distribution lines to the sewage disposal plant, an expensive alternative which is generally prohibitive. The sewage disposal plant was built with federal and state funds but the city owns and operates all of the distribution lines.

These annexation policies have led to legal challenges by the county. One agreement which was executed because of this set of circumstances resulted from the annexation of the North Valley Shopping Center by Chico. As a result of a consent decree resulting from this suit, the city of Chico subvents 5% of the sales tax received by the city to the county and the property tax division of city property is 55%/45% instead of the previous 60%/40% split which existed between the county and the city. While this agreement will eventually work in favor of the county, a tax loss will be sustained by the county over the next few years.

BUTTE COUNTY

ANALYSIS of REVENUES
(\$ Millions)

---ACTUALS---

<u>Title</u>	<u>80-81</u>	<u>81-82</u>	<u>82-83</u>	<u>83-84</u>	<u>84-85</u>	<u>85-86</u>	<u>86-87</u>	<u>87-88</u>	<u>88-89</u>	% Change <u>80-81</u>	Adopted <u>89-90</u>	% Change <u>88-89</u>	% Change <u>80-81</u>
<u>Revenue Sources</u>													
Property Tax (Secured/unsec)	\$6.4	\$6.8	\$7.7	\$8.6	\$9.3	\$10.2	\$10.6	\$11.5	\$11.8	84.3%	\$12.9	9.3%	101.6%
Other Taxes	4.2	4.6	4.2	4.8	4.5	5.4	6.0	5.8	5.5	30.9%	5.5	-0-	30.9%
Lic./Permits/Fines/Charges/Other Rev.	3.8	3.8	4.0	5.2	5.3	6.7	6.4	9.5	8.4	121.1%	12.1(a)	44.0%	218.4%
Use of Money	2.4	1.8	1.7	2.1	2.2	1.7	1.6	0.9	1.0	-57.7%	0.9	-10.0%	-62.5%
Other Govt. Agencies	38.4	38.6	38.0	41.2	50.9	59.6	61.9	68.9	76.4	98.9%	97.4	27.5%	153.6%
Grand Total	\$55.2	\$55.6	\$55.6	\$61.9	\$72.2	\$83.6	\$86.5	\$96.6	\$103.1	86.8%	\$128.8	24.9%	133.3%
Fund Balance	\$13.7 (6/30/80)								\$3.0 (6/30/89)		-0- (6/30/90)		
<u>Revenue Sources</u>													
County Tax Collections	\$16.8	\$17.0	\$17.6	\$20.7	\$21.3	\$24.0	\$24.6	\$27.7	\$26.7	58.9%	\$26.8(b)	-	59.5%
State and Federal Subu.	38.4	38.6	38.0	41.2	50.9	59.6	61.9	68.9	76.4	98.9%	102.0(b)	33.0%	165.6%
Co. Surplus (Add)/deduct	(3.9)	2.7	1.9	0.8	5.2	(3.0)	7.5	1.8	(0.5)	-	3.0	-	-
Grand Total Needed to Meet Expenditures	\$51.3	\$58.3	\$57.5	\$62.7	\$77.4	\$80.6	\$94.0	\$98.4	\$102.6	100%	\$131.8	28.4%	156.9%

a) Includes \$2.8M deferral of Schedule A Fire Contract and \$1.8M Trial Court Funding.

Source: Year-end reports - Butte County Auditor - Controller

b) Fire Contract deferral of \$2.8M and Trial Court funding of \$1.8M recorded under State Subventions.

Another revenue source, which the county was slow to adopt, is the levying of fees for permits and licenses for various activities within the county. One of the concepts adopted by many governmental entities faced with restricted revenue sources was "fee for service". The county has, in the last couple of years, adopted this concept but has lost considerable revenue in the interim.

One of the areas where the county has had a successful program is in the investment of its surplus funds. The county Treasurer invests all of the property tax funds received including those apportioned to the other governmental units. The rate of return received has been excellant. The cost of this service is deducted from the interest earned before the final apportionments are made. This is one of the few areas where a county service receives compensation from other governmental units benefitting from the service. The revenue from this activity, however, will soon decrease drastically since all of the county's reserve funds will be depleted by the end of FY 1989-90. (Schedule B)

Schedule B also discloses the effect of two recent state programs designed to assist counties in fiscal difficulty. The first of these programs is the County Revenue Stabilization Program first enacted in 1987 in Assembly Bill 650 (Chapter 1286). This program has been continued through an item contained in the annual State budget bill. For FY 1988-89 Butte County received \$352,341 and for 1989-90 will receive \$518,626. The full entitlement for Butte County, if the terms of the Legislation were operable, would be in excess of \$1.2 million. Budget Act restrictions reduced this amount to that shown. The other major allocation from the State during FY 1989-90 is the Trial Court Funding program. Butte County received approximately \$2.1 million from this allocation. For the current fiscal year, the judges were allocated \$900,000 from this allotment and \$1.2 million was utilized for other county services. These allocations were in addition to the \$2.8 million which became available for other county services as a result of the deferral of the amount owing for fire protection rendered by the California Department of Forestry (CDF) under a Schedule A contract. Even with the infusion of these supplemental funds, the county of Butte will end FY 1989-90 with no funds in its reserve account.

An analysis of the county collections shown on Schedule B further illustrates why this county has been experiencing fiscal problems. While the total amount of expenditures, primarily due to statutorily required programs, increased by 100% over the period from 1980-81 to 1988-89, the amount of revenue raised through county tax collection efforts increased by only 58.9%. The difference between revenue collected and amounts expended was covered by available surplus county funds. For 1989-90, it is forecasted that county tax collections will be almost equal to that received during 1988-89. It is acknowledged that many efforts were made to raise additional taxes but these proposals were defeated by the electorate. The county is currently considering ballot proposals for the June 1990 ballot. These proposals will be considered in the section of this report covering Recommendations and Options to be considered.

A review of state records revealed that the County of Butte was given an opportunity to add to its revenue base with the siting of a Department of Corrections Conservation Camp within the county. The offer was made both in 1984 and again in 1986, however, no mutually agreed to plan was reached.

It is estimated that a Conservation Camp sited at the McCabe site would lead to an annual fiscal benefit to the economy of the county in excess of \$900 thousand. However, no camp was established because the county and the state officials could not agree upon a mutually satisfactory plan.

The county was able to sustain its expenditure levels up until the current year only because it had a large surplus when Proposition 13 was passed. (Schedule B) and this surplus was used to cover the many years when a deficit was encountered. One of the anomalies observed was that while the major growth in the county has occurred either in or near the incorporated cities, most of the tax revenue generated by this growth has benefitted the cities and not the county. The growth, therefore, has been in the urban areas resulting in a demand for more services which are the sole responsibilities of the county. Major amongst these services were those relating to the courts including the District Attorney and the public defender, the County Assessor, social services and public works (roads). The cities have benefitted from this growth both fiscally and in services received by its citizens. The county has continued to experience a deficit relationship between its revenues and expenditures. This disparity between the cities and the county regarding a balance between services received and revenues generated is one problem which must be solved in any long range solution.

EXPENDITURES

The County of Butte, at the time Proposition 13 was adopted by the electorate of California, was primarily an agricultural county with the City of Chico the most urban area within the county. The county's management was conservative as reflected in the level of taxes collected and expenditures approved. Schedule C covers a summary of the revenues distributed to funds and expenditures by major category as displayed in the records of the county auditor-controller. The county began FY 1980-81 with a fund balance surplus of \$13.7 million (which included a reserve for encumbrance). During the next ten fiscal years, this surplus has been reduced to zero even though special assistance totalling \$2.8 million was received from the State affecting the 1989-90 budget.

One of the obvious answers to this phenomena is the failure of the level of revenue generated and received by the county to keep up with the expenditures approved by the Board of Supervisor. Equally important is the determination of what changes might have occurred over this period in the expenditure patterns experienced and their effect upon the county's budget. In addition, an analysis must be made of these changes experienced by the county and a comparison made to the expenditure patterns of the State as a whole.

Further analysis of Schedule C revealed that the two expenditure categories which experienced the greatest percentage of growth during the period 1980-81 to 1989-90 is Welfare and Road Operations. The expenditures for Road Operations is covered by the State subventions from the Highway Users Tax and it has only a minor effect upon the county's general tax revenue. The expenditures for Welfare, on the other hand, are covered by revenues emanating from the Federal Government, the State of California and county general taxes. The major welfare program which has experienced the largest growth in Butte County is Aid to Families with Dependent Children (AFDC) and General Assistance (GA). The AFDC Program is Federally mandated and State statutes require that counties share in the total payments made to families. The Federal and State share is included in the category "Other Govt. Agencies" on Schedule B which covers Revenue sources for Butte County. Schedule D, which displays the county statistics covering this program, enumerates the growth in caseload and dollars experienced by the county during a ten year period. While the county share of cost has averaged about 5.5 percent over the entire period, the total dollars required for the county match has gone from \$711,800 to \$3,041,500 annually.

The General Assistance program, on the other hand, is completely the county's responsibility. State statutes require that a county maintain a General Assistance Program for those welfare recipients who are not currently eligible for a Federal or State program. The grant level utilized in the AFDC program is established by the State and is uniform statewide. The grant level in General Assistance is theoretically set at the county's option. However, the level of grant for Butte County has been established by a series of court cases, the latest resulting from a consent degree dated March 24, 1989 issued in connection with a Superior Court case "Legal Services of Northern California versus Butte County". While the agreement included provisions that most of the payments would be made through a voucher system instead of cash and a period was established during which no further lawsuits were to be filed regarding this program, the basic grant level was increased to approximately \$295 per month, all of which must be paid with county funds.

BUTTE COUNTY

ANALYSIS OF REVENUES AND EXPENDITURES

(\$ Millions)

---ACTUALS---

<u>Title</u>	<u>80-81</u>	<u>81-82</u>	<u>82-83</u>	<u>83-84</u>	<u>84-85</u>	<u>85-86</u>	<u>86-87</u>	<u>87-88</u>	<u>88-89</u>	% Change 80-81	<u>Adopted 89-90</u>	% Change 88-89	% Change 80-81	
<u>Revenue</u>														
<u>Fund Summary</u>														
General Welfare	\$21.2	\$20.2	\$22.0	\$23.3	\$26.4	\$31.3	\$32.8	\$35.4	\$35.1	65.5%	\$36.9	5.1%	74.0%	
Road Operations	19.2	22.8	24.2	27.4	31.8	35.4	40.7	48.7	55.7	190.1%	70.4	26.4%	266.6%	
Revenue Sharing	2.6	2.9	2.6	3.4	2.7	5.5	6.7	5.5	5.3	103.8%	9.6	81.1%	269.2%	
Building Inspection	2.6	1.8	1.7	1.5	1.5	1.5	0.3	-	-	-100%	-	-	-100%	
Fire Protection	2.4	2.5	2.0	2.5	2.7	3.0	3.6	3.4	3.5	45.8%	3.9	11.4%	80.8%	
Library	1.3	1.0	0.9	1.4	1.2	1.3	1.4	1.2	1.2	-8%	1.0	-16.6%	-23.0%	
All Others (a)	5.9(b)	4.4	2.2	2.4	5.9(c)	5.6	1.0	1.1	1.2	-391.6%	6.0(d)	400%	16.9%	
Grand Totals	\$55.2	\$55.6	\$55.6	\$61.9	\$72.2	\$83.6	\$86.5	\$96.6	\$103.1	86.8%	\$128.8	24.9%	133.3%	
Fund Balance 6/30/80	\$13.7										\$3.0	6/30/89 (e)	-0-	6/30/90

ExpenditureSummary Budget Totals

General Welfare	\$21.9	\$22.9	\$22.5	\$23.4	\$28.9	\$29.0	\$33.9	\$36.6	\$35.2	60.1%	\$38.0	7.9%	73.5%
Road Operations	18.6	23.8	24.0	28.3	32.0	35.4	45.5	48.8	55.8	200%	70.1	25.6%	276.9%
Revenue Sharing	2.1	2.5	2.8	2.1	2.4	4.6	6.8	6.0	4.6	119%	11.0	139.1%	423.8%
Fire Protection	2.9	1.6	2.4	1.5	1.8	1.4	0.3	-	-	-100%	-	-	-100%
Libraries	2.1	2.3	2.2	2.4	2.8	2.8	3.5	3.5	3.7	76.2%	3.9	5.4%	85.7%
Job Training/Build. Ins.	1.1	1.1	1.0	1.3	1.4	1.3	1.3	1.3	1.2	9.1%	1.0	-20%	-10%
All Others (a)	-	-	-	0.7	2.4	2.3	-	1.0	0.8	N/A	1.4	75%	N/A
Grand Totals	\$51.3	\$58.3	\$57.5	\$62.7	\$77.4	\$80.6	\$94.0	\$98.4	\$102.6	100%	\$131.8	28.5%	156.9%
Excess (Deficiency)	\$3.9	\$(2.7)	\$(1.9)	\$(0.8)	\$(5.2)	\$3.0	\$(7.5)	\$(1.8)	\$0.5			\$(3.0)	

(a) Includes revenue and expenditures relating to Agri., Water, Trial Court Funding, Road Construction, Capital Projects, Fish and Game, Family Conciliation, Transit, Hud and HCD.

(b) Reflects Capital Construction and Road Construction Allocations.

(c) Reflects receipt of temporary job training (JTPA) grants.

(d) Reflects receipt of 1st year Trial Court Funding.

(e) Fund balances reflects \$1.8 Million received from non-tax sources ie sale of equipment and EDP funding.

Source: Year-end reports filed by Butte County Auditor - Controller

**Butte County
Welfare Aids -- AFDC and GA
by Fiscal Year
(\$ Thousand and Persons)**

Aid to Families with Dependent Children (AFDC)

<u>Year</u>	<u>FG (Family Group)</u>	<u>U (Unemployed)</u>	<u>FC (Foster Care)</u>	<u>County Share</u>	<u>Total AFDC</u>	<u>GA (General Asst)</u>
1980-81 Persons	\$560.7 5,820	\$118.9 1,248	\$32.2 200	\$711.8 5.3%	\$14,098.1 7,268	\$104.4 116
1981-82 Persons	\$672.5 6,681	\$258.0 2,438	\$51.5 256	\$982.0 5.3%	\$18,379.0 9,375	\$172.5 116
1982-83 Persons	\$711.1 6,825	\$268.4 2,853	\$59.0 165	\$1,038.5 5.5%	\$18,923.3 9,843	\$209.6 132
1983-84 Persons	\$792.9 7,629	\$296.5 3,133	\$56.1 185	\$1,145.6 5.3%	\$21,420.6 10,947	\$275.0 140
1984-85 Persons	\$936.3 8,009	\$363.7 3,197	\$79.7 242	\$1,379.7 5.7%	\$24,162.7 11,448	\$373.8 186
1985-86 Persons	\$909.0 8,756	\$353.5 3,402	\$106.1 266	\$1,368.6 5.4%	\$25,393.7 12,424	\$592.2 417
1986-87 Persons	\$1,093.7 9,658	\$425.3 3,816	\$136.9 336	\$1,656.0 5.6%	\$29,500.0 13,810	\$697.0 639
1987-88 Persons	\$1,395.1 10,579	\$490.1 4,402	\$156.4 414	\$2,041.6 5.6%	\$36,114.0 15,395	\$1,278.0 631
1988-89 Persons	\$1,726.2 11,985	\$592.3 4,804	\$231.2 505	\$2,549.7 5.6%	\$45,545.4 17,294	\$1,434.1 823
1989-90 Persons	- - - - - 12,455	Not Available 5,676	- - - - - 540	\$3,041.5 5.7%	\$52,935.0 18,671	\$2,421.1 825
Average				5.5%		

% Change 1980-81 to 1989-90

Butte County Dollars

Butte County Persons

306.6%

275.5%

Over 2,000%

611.2%

Statewide Dollars

Statewide Persons

Not Avail

92.5%

Not Avail.

224.4%

Source: Butte County

Final Budgets by year (Actual - Estimate)

Statewide

State Dept. of Social Services - Statistical Services

Along with the increase in the level of grant required to be paid by the county, the number of recipients have also increased rapidly in the last ten years. Schedule D discloses that the county's dollar requirement for General Assistance has gone from \$104,400 during FY 1980-81 to an estimated \$2,421,100 for FY 1989-90 an increase of over 2000 percent. During this same period, the persons served have increased from a monthly average of 116 persons to 825 persons an increase of over 600 percent. While these figures are applicable only to Butte County, in any analysis it is necessary to obtain comparatives with Statewide totals. On Schedule A, a comparison has been made of growth rate in persons served in AFDC and General Assistance (GA) both in Butte County and the State as a whole. For AFDC, the average percent of growth for AFDC persons is 11.25% per month as contrasted to a growth rate of 2.21% per month statewide. For GA, the county's rate of growth for persons served is 29.34% per month versus the statewide average of 18.8% per month.

While these statistics are impressive, the graphic which illustrates the affect of these growth rates in welfare expenditures on Butte County's financial status, is a comparison of the percentage of the county's discretionary tax revenue needed to support the AFDC and GA program. In 1980-81, the total county share of these two programs was \$816,300 which represented about 3.981% of the county's General Purpose Revenue (\$20.5 mil) as defined in Government Code Section 16265.2. For 1989-90, the county's share totals \$5,462,600 about 17.122% of this revenue base which has increased to \$31.9 million. An increase of this magnitude, it is observed, must be taken into account when analysing the financial status of Butte County.

What are the reasons for these increases in caseload and what effect has this set of circumstances had upon the other expenditure categories of the county? The reasons advanced by county representatives has been the apparent migration of persons from other areas of the state attracted by less expensive housing and the ability to live more satisfactorily on the level of payment received. The county has always been dependent upon seasonal labor cycles due to the existence of agricultural and lumber industries within the county. However, the level of increase in welfare recipients far exceeds the population growth shown on Schedule A. While the AFDC and GA programs have experienced the highest growth rate, Butte County also has a large segment of its population on other social programs. The second largest city, the town of Paradise has a large population of retired citizens who require services. Statistics compiled by the Department of Finance for 1988 disclosed that Butte County has 16.5% of its population over the age of 65 years. The statewide average is 11.2% for this age group. The welfare director of the county estimated that 21% (37,000 persons) of the total population of the county was receiving some type of social services.

The effect of this level of expenditure has been felt in all other programs of a discretionary nature in the county. The press has reported upon the closing of the six libraries maintained by the county and their reopening only with the support of the cities involved and citizen donations. They have further reported upon the cancellation of the contract with the SPCA for animal control. The Public Health Director is carrying out this program without any additional funds along with his other duties. The caseload handled by the welfare workers is 220 versus 150 cases statewide. State funds in the amount of approximately \$1.5 million which would be available for welfare administration in the county have not been claimed due to a lack of county matching funds (50%) required by state regulations. The sheriff is able to have only two deputies throughout the entire county during the third shift.

The probation officers are able to handle only the most urgent cases. These are just a few examples of the effect of a limited amount of discretionary funding.

It has been observed that a significant problem exists regarding the county's employees. Along with no new positions being approved, the salary scale in Butte County is amongst the lowest in the state. Schedule E is an analysis of the salary increases received by Butte County employees during the last eleven years. On the average, the county employees have received 3.8% per year except for the department heads who have received a lesser percentage. This contrasts to an average cost of living increase per year statewide of 6.3% and a State of California employees wage increase averaging 6.18% per year. The Director of Personnel has made available extensive data regarding the comparison of wages paid in Butte and to other comparable governmental agencies. It is not the purpose of this review to recommend salary levels. However, the salary levels paid and the workload placed on staff have lead to a heavy turnover of employees annually and has doubled the number of grievances and appeals filed by employees. The main entities receiving these former county employees are state agencies and cities both in and out of Butte county. This heavy turnover affects the efficiency and effectiveness of the programs to be delivered and requires that continual training be carried out by the supervisory staff of the county. An additional problem was disclosed by the Director of Probation. State Training Funds have been received to support a training program for county probation officers. However, because of the heavy turnover of employees in the probation unit, he has been notified by the State Board of Corrections that the program may be decertified resulting in the State training funds being withdrawn. The irony is that the major recruiter of these county employees is the State Department of Corrections for correctional officers for the new state prisons.

One of the other direct results of the salary scales in effect and the public discussion of the problems being experienced by the county financially, is the difficulty encountered in the recruitment of qualified employees to replace those leaving. The county Health department is facing major problems in the inspection of water systems and septic tanks. During FY 1988-89, of the ten sanitary inspection positions authorized, five equivalent positions remained vacant. The duties have been performed by blanket positions and supervisors. The District Attorney reported that the number of felonies of all types committed in Butte County have doubled in the last four years but his office has received no new professional positions resulting in long delays in bringing these cases to trial. In addition, he expressed concerns regarding his ability to recruit competent clerical support if turnover in staff should occur. Finally, the Public Works Director reported that while his department is supported almost 100% by other than County General Funds, because of the salary levels, he had a turnover of 15 of the 18 building inspectors authorized and he has been unable to hire a junior civil engineer authorized for over a year. As a final illustration, Exhibit D has been appended to the report. This exhibit contains the FY 1989-90 salary plan for the elected and appointed officials of the county.

Butte County

Analysis of Salary Increase
By Year - Estimated Percentage

<u>Date</u>	<u>Explanation</u>	<u>Cost of Living</u>	<u>Butte County</u>	<u>California State Employees</u>
1979-80	General Pay Increase (10/27/89) Co. Stopped Paying FICA-WK Week 37 1/2 to 40 hrs. General Pay Incr, to offset above (1/5/80)	14.9%	10.0%	14.5%
			(-12.75)	
			10.00	
1980-81	General Pay Increase (9/27/80)	11.6%	12.5%	10.0%
1981-82	Pay Increase Law Enforce (LE) (7/4/81) General pay Increase expt LE (8/4/81)	10.9%	7.4% 2.0	6.5%
1982-83	Pay Cut Department Heads (7/2/82) Pay Increase Law Enforce (7/3/82)	2.1%	(-10.0)% 7.0	-0-
1983-84	Co. paid empl. PERS except Law Enf. Department Head Pay Cut restored (7/2/83)	3.8%	6.5% 10.0	6.0%
1984-85	General Pay Increase except LE (8/11/84)	4.9%	5.0%	8.0%
1985-86	Co. paid PERS for Law Enf.	4.0%	-0-	6.0%
1986-87	General Pay Increase (1/10/87)	3.3%	2.5%	5.0%
1987-88	General Pay Increase except Department Heads (1/7/88)	4.7%	4.0%	4.0%
1988-89	Co. paid a portion of Life and Health Insurance (10/1/88) for reduced level of benefits	4.8%	1.5%	6.0% (6/89)
1989-90	Co. changed Health Ins. Coverage - paid add % amount of premium (10/1/89)	4.4 (Est)	1.0%	4.0% (1/90)
	Eleven year Average	6.3%	3.8% (Except Dept. heads and Law Enforcement)	6.18%

Source: Butte Co. Personnel Director

Calif. Dept. of Finance Statistical Records.

COUNTYWIDE

An overview of Butte County would not be complete unless some note was taken of the many problems which exist throughout the county which should be addressed in any future plans for improvement. As explained in the analysis of the revenue and expenditure patterns of this county, for the last four years, the budget has essentially been static regarding any major program improvements within the county. This is understandable given the current revenue base.

However, one of the other areas observed which has been neglected is the planning function covering improvements which should be considered by the Board of Supervisors. To successfully developed a long range plan for the county of Butte, these planning functions must be improved. The following is an outline of the major problem areas observed during the review of the county's operations by the oversight advisor.

Development of a Regional Sewage Disposal Plan for the county and the town of Paradise

The lack of a regional plant or even a plan to begin to solve this problem permeates many of the problems facing the county. This includes the Nitrate problem in the Chico area and the development of any permanent solution in conjunction with staff of the State Water Resources Control Board. It affects the plans of the Public Health Officer who is concerned regarding the Health of the citizens of the county. It has proven to be an area which blocks any reasonable development plans for the county and the town of Paradise. It is recognized that bond funds dedicated to this type of facility are no longer available in quantity by the State and Federal Government. However, in the opinion of the oversight advisor, the development of a solution to this very serious problem should be one of the first priorities of the county and associated state agencies once the short term financial problems of the county are resolved.

County Jail

The current county jail was constructed in 1978 using Title 15 funds. The original plans called for an inmate population of 350. However, with a change in jail standards and a subsequent judicial review utilizing these standards, a consent degree limits the jail to a population of 173 inmates. The consent agreement further requires that if the population exceeds the total over a period of ten days, 5 inmates per day are released until the limit is reached. Because of the increase in felony cases experienced by the county, this maximum number of inmates is reached periodically. In addition, the design of the facility requires that a number of county staff, claimed to be excessive, be assigned to guard the inmates. The lack of beds in the facility not only has impacted the law enforcements activities of the county but also the court system. The county contracted for a corrections need assessment and master siting plan and received a report dated September 8, 1988 from the contractor. The report calls for the building of 771 beds for a total cost of \$46 million which would meet the needs of the county for the next 20 years. However, funds in this amount are not available from either county or state sources. The State Board of Corrections has advised the oversight advisor that a total of \$7.8 million is available to Butte county from the 1986 and 1988 bond issues. These funds do require a 25% match from the county which could include in-kind offsets. The county has not developed any plans to apply for this lower level of funding. While it is desireable to plan in the long term, it is also a reality that a short term solution may be the only one available.

Public Defender

The cost of this service has doubled in the last four years. The county administration has developed a report and has a proposal under consideration which should result in improvements in the total funding requirements for this program. The procedure utilized in developing this report should be a model to be used by the county in solving some of its other outstanding problems. However, when analysing the prior costs of this program, it is noted that Butte County has experienced an increase from \$290,000 in FY 1980-81, 1.41% of the County's General Purpose Revenue (GPR), to an estimated \$1,458,000 in FY 1989-90, 4.57% of the GPR. The state does not currently have a subvention program for this activity. It is suggested that a review of this program be a high priority for any task force reviewing county problem areas since the application of a GPR percentage increase in Butte Co. would amount to a one million dollar saving to the county.

Superior and Municipal Courts and activities of county elected officials

The activities of the courts; the county assessor; the county tax collector; auditor-controller; the county clerk and the district attorney benefit all citizens of the county including those residing in the cities and especially the other governmental units receiving apportionments from the local property tax. However, in the main these activities are supported by county discretionary funds. The current allocations under AB 8 and the need for funds to be expended for the welfare programs, have directly impacted the level of service rendered by these offices. It is observed that some mechanism should be developed to provide an additional level of support for these activities particularly from the cities and school districts within the county. The passage of Proposition 98 by the electorate has limited the possibility of receiving any assistance from the schools.

The trial court funding recently distributed has been a benefit to the court system. The major problem still outstanding is facilities to house the courts. The superior court is housed in the administration complex in Oroville. Three of the courtrooms are adequate. The fourth courtroom was originally built as a hearing room for the grand jury and is completely inadequate. There are municipal courts housed in the cities of Oroville and Chico. One of the courtrooms in Oroville is a trailer parked outside of the main court building. The county does have some capital funds in the Court House Construction Funds (\$486,000) and the Criminal Justice Facility Fund (\$150,000) derived from a portion of the parking tickets and fines collected to be used in remodeling a building to house the South County Municipal Court. These are about the only funds available for capital construction in the county.

Planning

The entire planning process, both that formally carried out by the planning department and the plans developed by the county administration, are lacking. It has been acknowledged that the annexations of unincorporated land by the cities which have a tax potential has been a problem. However, no firm policy has been enumerated to set up guidelines for county staff to follow. The general plan for the county as a whole was last completed in 1979. Work is being done to update certain portions of the mandatory seven point plan required by statute. However, all of these phases are behind schedule or incomplete. The whole process appears to be reacting to specific problems with no effort being expended on long range planning.

Memorial Halls

The county has the responsibility for the maintenance and upkeep of six memorial halls which are located in the following cities: Chico, Paradise, Oroville, Durham, Biggs and Gridley. While the net annual cost to the county to maintain these buildings is less than \$100,000, because of the age of these structures and the growth of the communities in which they are sited, a review should be made regarding what alternatives might be available for their future ownership. County Counsel has advised us that court decisions dating back to 1929 give the responsibility for these halls to the county. However, due to the changes which have occurred over the intervening years regarding building construction requirements and the possible liability which could face the county if ownership is continued, a review appears to be in order.

Water Rights

A number of discussions were held regarding the need for the county to make a decision regarding the payment to the State for certain water rights covering about 27,500 acre feet of water from the Oroville Dam. The amount of payment is \$500,000 due in 1991. This date represents a ten year delay granted by the State Department of Water Resources from the original date when this payment was due. It is observed that the county should take steps to try to resolve this issue with the State agency involved before it reaches a critical stage. One area suggested by the oversight advisor to be investigated, is requesting forgiveness regarding the \$500,000 fee based upon the loss of property tax revenue resulting from the siting of the Oroville Dam within Butte County. There are several state statutes relating to in-lieu payments of property tax to a county which sustained property tax losses due to the removal of property from the county's Assessed Valuation rolls because of state activities.

Proposition 4 - Gann Limit

Any discussions regarding the expansion of the revenue base for a county must take into consideration the limits prescribed by Proposition 4 passed in 1979 by the electorate called "the Gann Limit". The publication entitled "Financial Transactions covering Cities of California - Annual Report 1987-88" issued by the State Controller in Table 14 reported that Butte County appropriations subject to the limits for FY 1987-88 were under the Gann Limit by \$5,286,889. The Department of Finance staff, utilizing this data updated through FY 1988-89, estimated for this succeeding fiscal year, Butte County appropriations were under the Gann Limit by \$7,126,128. The Butte County Auditor-Controller claims that these calculations do not include all of the revenue allowable under the proposition. To avoid any difficulty regarding any subsequent decisions regarding Butte County, it is suggested that an agreement be reached between all interested parties regarding the Gann Limits applicable for FY 1989-90 and 1990-91 to this county.

RECOMMENDATIONS AND OPTIONS FOR BUTTE COUNTY

The revenues generated by Butte County from the local tax base and from State and Federal sources have been insufficient to maintain the level of expenditure experienced by the county. During the short time frame allotted to the oversight advisor, it has been impossible to do an indepth analysis of every program approved by the Board of Supervisor for inclusion in the annual budget and it will be possible to comment only upon those which can be ameliorated in the near future. It has been observed that the operating budgets of the county, for the last four years, have essentially been baseline except for the expenditures relating to welfare programs. However, during this same period, the reserves of the county have been exhausted to cover the ever increasing funds necessary to pay for these programs while the other problems confronting the county government remain unsolved.

SHORT TERM RECOMMENDATIONS

The most urgent need in the short term is to establish a mechanism to increase the revenue base available to Butte County while more permanent solutions are developed. This appears to be a much more reasonable alternative than any consideration regarding filing for bankruptcy under Title 9 with all of the unknowns and the fact bankruptcy represents no permanent solution to the problems facing Butte County.

Alternatives to be considered by State of California

Revenue Stabilization

Current statutes (Chapter 1286/87) established this program to assist counties in providing basic social welfare, public health and justice programs (GC 16265.1). Utilizing the formulas prescribed, the County of Butte would be eligible to receive \$1,209,175. However, due to restrictions contained in the budget bill for FY 1989-90, this amount was reduced to \$518,626. Due to the fiscal problems facing Butte County, it is recommended that language be contained in the Budget Bill for 1990-91 (Attachment A) which would ensure that Butte county would receive its full entitlement. It should be noted that the language holds Butte County harmless for any infusion of state funds on a temporary basis which might effect the allocation parameters. Estimated net increase to Butte County's Revenue base for 1990-91 \$690,500.

Buy-out of a portion of the county share of cost for the AFDC and GA programs.

As illustrated in Schedule D, the county's share of the amount expended for the Aid to Families with Dependent Children (AFDC) has averaged 5.5% and for FY 1989-90 is estimated to be 5.7%. However, due to the rapid increase in the size of this program, the county's dollar share has risen from \$711,800 to \$3,041,500 annually. The General Assistance (GA) program, which is 100% county funded, has experienced a dollar increase annually from a total of \$104,400 to \$2,421,100. A significant statistic can be derived by comparing these expenditure levels between years to the county revenue collections shown on Schedule B. For FY 1980-81, Butte County was required to expend 3.981% of its county General Purpose Revenue for these two welfare programs. For 1989-90, the percentage required has risen to 17.122% of a base which has increased approximately 56% during the intervening time period.

While the latest consent agreement dated March 24, 1989 resulting from the settlement of the superior court suit entitled "Legal Services of Northern California et al versus Butte County et al" inaugurated a General Assistance Program for the county which is based upon a large share of the payments being made through vouchers, the grant level permitted still represents a major increase in the amount of county funds needed to fund the program. The county officials claim that much of the increase in the number of recipients in both the AFDC and GA programs is due to a migration of recipients from other counties which is beyond their control.

Since the state has no responsibility for the GA program, statistics are collected only on the number of GA recipients and not the dollars expended by the various counties for this program. Schedule A illustrates that the growth in persons served in both the AFDC and GA programs in Butte County has far exceeded the statewide averages. It seems reasonable that the state should be given the opportunity to thoroughly review the methods used by Butte County in administering these two programs and to try to determine the reasons for this growth pattern. Butte County has experienced a rapid turnover in welfare staff in the last few years. This may have contributed to some degree to this extraordinary growth pattern. This is an additional reason for an outside review to be undertaken. To allow the county to continue to carryout its other program responsibilities while this review is being accomplished, it is recommended that for FY 1990-91 and 1991-92, consideration be given to the state buying out that portion of the Butte County share of the AFDC and GA program which exceeds 3.981% of its county General Purpose Revenue as defined in Government Code Section 16265.2. Adoption of this recommendation would ensure that Butte County would continue to expend the same level of local tax effort as experienced in FY 1980-81 for these programs but be held-harmless for the increases while a determination was made regarding the county and the state's administration of these programs. Suggested Budget Act language to provide for this buyout for FY 1990-91 is included in Attachment B.

Utilizing the FY 1989-90 statistics as shown on Schedule B and Schedule D, the following calculations would result from the acceptance of this recommendation. The total county General Purpose Revenue for FY 1989-90 is calculated to be \$31.9 million. Applying a percentage of 3.981% to this base results in an amount available for AFDC and GA county share of \$1.3 million. Since the current county share is approximately \$5.5 million, this would require a state buyout of \$4.2 million based upon FY 1989-90 statistics. These amounts would be adjusted to reflect the revenue and expenditure estimates developed by the State Controller for the years involved. Estimated increase to the county's discretionary income \$4.2 million.

Payback of \$2.8 million owing to the State of California for fire services under schedule A contract.

The FY 1989-90 Butte County budget was balanced due to the temporary waiver by the Director of Finance of the amount owing for fire services rendered by the California Department of Forestry (CDF) under contract with the county. This amount along with the amount necessary to pay for services rendered in the current year would be payable during FY 1990-91. In view of the fiscal problems facing the county and to make effective the temporary or short term solutions advanced, it is recommended that legislation (Attachment C) be introduced and enacted which would defer the repayment of the outstanding accounts receivable beyond FY 1990-91. The proposed legislation would allow repayment over a ten year period. Estimated decrease in the county's FY 1990-91 budget \$2.8 million.

Establishment of a small county (200,000 and under) task force by the Administration.

The review of the County of Butte has revealed the need for the state to have a group of staff available to assist small rural counties in solving the problems associated with changes in population growth; migration from urban to rural settings; the establishment of a uniform and equitable fee structure including those controlled by state agencies (example, fees allowed to be charged by a County Clerk for election activities); the establishment of Proposition 4 (Gann Limits) in subsequent years; and the funding of services to a diverse citizenry. A complete review of the welfare program of Butte County has already been suggested. In addition, one of the overriding needs of this county is a current planning process which not only fulfills the statutory requirements but one that sets forth to the Board of Supervisors alternatives for their review. Butte County is also faced with major health related problems in the area of sewage disposal and the accompanying nitrate accumulation in the water system. Therefore, it is suggested that Butte County could serve as a pilot county wherein various state agency staff, including staff from CSU Chico, would work with the county to develop solutions and recommendations. To carryout this task, it is recommended that a small county task force be established by the Administration to work initially with Butte County to help resolve its problems. Any further expansion of this technique would depend upon the success of this pilot project. Estimated cost to State would be minor consisting primarily of additional travel expenses plus the effort of redirected state departmental staff reassigned.

Alternatives to be considered by the County of Butte

Expansion of County Revenue Base

The County Board of Supervisors currently is planning to place before the electorate three ballot proposals which would increase the county's revenue base. One proposal would establish a county service area and an associated fee on each dwelling to pay for fire protection. The other two proposals relate to the establishment of benefit assessments to cover the cost of library and animal control activities. While these proposals would, if enacted, increase the revenue base, they would do little to alleviate the disparity between the revenue received by the incorporated cities and the services rendered by the county which benefits these city residents along with county citizens.

The urbanization of the unincorporated portion of Butte County and the need for services resulting from this transformation is one of the root causes of the Butte County problem. The actions by the cities to annex retail property and to establish redevelopment areas within the cities has reduced the tax base of the county. At the same time, these actions have enhanced the cities ability to fund services and improvements for their citizens and improve their financial well being. Therefore, it would appear to be more beneficial if the Board of Supervisors would consider an alternative tax source which would include a tax effort by the citizens of the incorporated cities. This alternative would be especially advantageous if the short term alternatives suggested for State consideration were enacted.

The alternative which the oversight advisor suggests be considered is the establishment of a 0.5% tax upon all retail transactions within the county (sales tax). This tax would be established under the terms set forth in Assembly Bill No. 999 (Chapter 277, Statutes of 1989). This legislation authorizes a board of supervisors of a county with a population of 350,000 or less to establish an authority for specific purposes and would authorize the authority, by a 2/3 majority vote of its members and approval of a majority of the voters of the county, to adopt an ordinance imposing a transactions and use tax at a rate of 0.5% for any purpose for which the authority was established. It is suggested that the purpose of the authority be to pay for the fire protection, public health, law enforcement and capital construction projects benefitting all of the citizens of the county. This sales tax would be applied to all retail transactions occurring in both the incorporated cities and the unincorporated county.

Utilizing the annual report of the State Board of Equalization for FY 1987-88, it is estimated that enactment of this ordinance would raise approximately \$6 million annually. Due to the imposition of the special 0.25% statewide sales tax for earthquake relief enacted by the State Legislature during the 1989 Special Session, consideration could be given to having the special county sales tax commence January 1, 1991. The income from this tax could then be utilized to fund services in the prescribed areas thus releasing funds to be used in other areas of the county's budget. Estimated revenue \$1.5 million for FY 1990-91 and \$6.0 million annually thereafter.

Library Services

One of the most publicized actions by the Board of Supervisors during FY 1989-90, was the closure of the libraries serving Butte County. The libraries, which are primarily located in Chico, Oroville, Paradise and Gridley, have subsequently been reopened utilizing city and citizen donation funds. There are small volunteer libraries in Durham and Biggs which do not effect the county's budget. Along with the need for funds to support the personnel assigned to the libraries, the county budget must also pay off a 15 year bond issue which covered the construction of new libraries in Chico and Gridley in 1983. The annual cost of this bond indebtedness is \$396,000.

For 1989-90, the county budget covers three positions which are assigned to the main library located in Oroville. In addition, book purchases for the library is covered by a Special District Augmentation Fund. We have been advised that the County of Butte has supported a library system since 1912. However, the complexion of the county, especially with the emergence of an urban city population, has changed considerably. The time appears to be appropriate for the county to consider whether it should continue to support, exclusively with county funds, libraries which primarily serve the citizens of its incorporated cities. There is justification for continuing a county main office to handle library purchases; a county loan program and coordination efforts with the State Librarian; and other statewide library programs. In a number of counties, the cities maintain the libraries within their boundaries and the county is responsible for coordination.

It is recommended that consideration be given to transferring the responsibility of the libraries to the cities in which they are located except that the county would continue to support the Library Coordination activities and the associated staff. While the amount which would be saved initially from this change would not be significant, any agreement for the transfer of the buildings involved should take into consideration the outstanding bond issue. As stated, the annual cost of servicing these bonds is about \$400,000 which is paid by the county. The bond agreement does contain a clause which would allow the county to pay off these bonds on August 1, 1991 with a lump sum payment of \$1.2 million. The execution of this clause by the county would result in a saving of approximately \$600 thousand in interest over the balance of the bond period. Any agreement covering the change of responsibility for the libraries should include a provision for the joint payoff of the outstanding bonds by the county and the cities and the state if any funds might be available for this purpose. Estimated savings to the county annually is \$300,000 in support funds plus any savings which would result from the early redemption of the outstanding bonds.

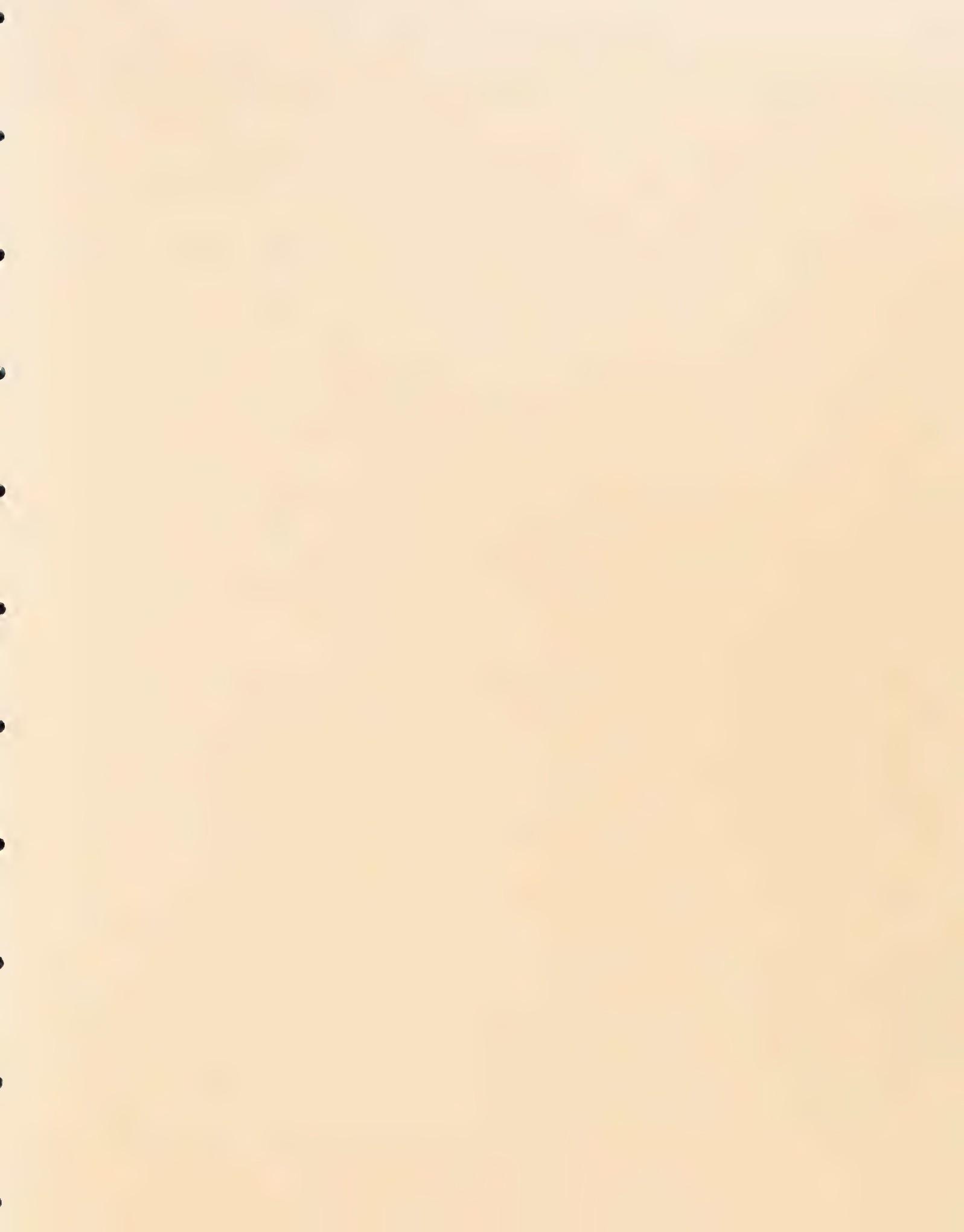
Establishment of a Special County Planning Task Force

To ensure that sufficient input is received from county, city and citizens groups interested in the solution of problems facing Butte County, the establishment of a special County Planning Task Force should be considered. This task force could then be apprised of the recommendations emanating from the State Small County Task Force previously recommended. The resulting exchange of information and viewpoints would be helpful in the formation of recommendations to be ultimately reviewed and approved by the Board of Supervisors of Butte County.

Alternative to be considered if those suggested are unacceptable

Establish a loan fund for Butte County payable from the General Fund and appoint a trustee for its administration

The California State Government Code Sections 23001 et seq contains numerous citations relating to the status of counties as legal subdivisions of the state. One of the alternatives which appears to follow from these sections is the possibility that an action can be proposed similar to that taken regarding the Oakland Unified School District (Assembly Bill 2525, 1989 Session), providing there can be no agreement between the State of California and Butte County regarding the suggested alternatives. In summary, legislation would be introduced (Attachment D) to establish an emergency loan from the General Fund to the County of Butte and that it be administered by a trustee appointed by the Governor. This legislation would remain in force until a schedule of changes in financial and management policies and practices were initiated to correct all deficiencies or weaknesses identified in either an independent audit report or a management review. It is suggested that this be considered a last resource after all other alternatives have been considered and rejected.



LONG TERM RECOMMENDATIONS

The success of any long term recommendation will depend, to a great degree, upon the successful execution of a series of short term recommendations which would resolve the immediate fiscal problems facing Butte County.

Alternatives to be considered by the State of California

Establishment of a State Unit responsible for county activities

While the 58 counties in California are considered to be legal subdivisions of State Government providing for public needs in the local communities served (Government Code Section 23002) and the local officials are responsible for carrying out many of the laws and regulations promulgated at the State level (Santa Monica v Los Angeles County (1911) 15 CA 710, 115 P 945), no state organization exists which is primarily responsible for coordinating all of the various county activities. Many state departments have officials who are responsible for local governmental affairs concerning specific programs emanating from their state department. However, no group or state department has been designated overall responsibility to coordinate and ascertain the effect of the various laws passed by the Legislature and regulations issued by state departments upon the 58 counties in California.

Prior to the enactment of Proposition 13, while counties experienced difficulties in carrying out the responsibilities given to them, both at the state and local level, they did have a mechanism for funding the programs as approved by their Boards of Supervisors. The county tax rate on assessed valuations ascertained by the county assessors was enacted in an amount which raised sufficient revenues to cover the expenditures approved by the board. This, of course, has now changed by the Constitutional provisions contained in Proposition 13.

In addition, the counties have been faced with changing demographic profiles; with a shift from a rural to an urban setting; and with the many new problems accompanying these changes. State Government, through legislation and the issuance of regulations, has taken an active role in trying to determine how these problems are to be solved. However, these activities have, in many cases, created obligations upon the counties which cannot be readily funded given the restrictions of Proposition 13 and Proposition 4, the so-called Gann limits. Therefore, a need exists for the designation of a state entity to take over the responsibility for coordinating and assisting counties in meeting these challenges. This organization could be established by Executive Order or by Special Legislation.

Review of the provisions established by Assembly Bill(AB) No. 8 (Chapter 282. Statutes of 1979)

One of the major bills passed by the California Legislature in response to the passage of Proposition 13, was Assembly Bill (AB) 8 (Chapter 282, Statutes of 1979). This legislation established guidelines for education apportionments; enacted provisions to establish a number of new programs; and established formulas for the distribution of local property taxes as well as addressing a number of other important subject areas. While a number of changes have been made to certain provisions of this legislation, the local property tax formulas are still essentially in place. The legislation was enacted as a long term solution to the effects of Proposition 13 and it has successfully fulfilled this role to the current period.

However, the problems facing Butte County and perhaps other counties which have developed during these intervening years, lead the oversight advisor to the recommendation that efforts should be initiated to thoroughly review the provisions of AB 8 including the changes which have become effective since its original enactment. This review would develop alternatives for Legislative consideration relating to the funding split of local revenues between school districts; counties and special districts; the effects of annexations and redevelopment activities; and the possibility of pooling and dividing tax revenues between the various jurisdictions to eliminate the current competition amongst communities for the available tax dollars. The original AB8 legislation recognized that most counties had reserve accounts which could be utilized in times when revenues did not equal expenditure levels. Taking Butte County as an example, these circumstances have now changed and a review is in order.

It is suggested that the review of the AB 8 provisions be carried out by a special task force appointed by the Governor containing staff members recommended by the various Agencies and elected officials affected by this legislation. This task force could then gather testimony from representatives of all the interested entities and proposals for change would be incorporated into a report and subsequently proposed legislation. This methodology was used in the original development of AB 8. We appreciate that any change in the existing AB 8 provisions must take into account the possible effect upon various entities and programs and the numerous changes which have occurred since the legislation was enacted. However, if any long range improvements are to be made in county and state fiscal relationships, this review is needed.

Alternatives to be considered by the County of Butte

Establishment of an Ad-Hoc Committee to improve communication between all segments of government and the electorate.

To proceed with the meaningful development of Butte County in future years requires that a better communication system be established between county government, the cities and the electorate. To resolve the many problems faced by the county, a cooperative attitude between all of the interested parties is a requirement. Too often in the past, the only interchange between the various parties has been law suits with the resulting expense relating to litigation and decisions rendered by judges rather than through agreements between interested parties. It is suggested that the establishment of an Ad-Hoc Committee or some variation be considered to overcome this communication void.

Expansion of Tax Base

As a county becomes more urban, additional demands for service as received and must be considered. This report has advanced some recommendations for expanding the revenue base for Butte County in the short term. However, the long term goal of the county should be to attract a commercial base which would lead to increased income to the citizens of the area and an increased revenue base to the county. The completion of a solid plan for growth and a solution to the establishment of a sewage disposal plan for a major portion of the county will certainly be of great assistance in achieving this goal.

The County of Butte has the land space; a good transportation system of highways, roads and transit; and an available labor force. One of the major activities which should be undertaken is a search for new industry. At the state level, the county already has a university (CSU Chico) located in its major city. One other alternative which is being offered by the state is the siting of a Board of Correction facility in various rural counties. We have been advised that Butte County has not, in the past, actively pursued such a siting in its area. It has been reported that the town of Biggs has submitted an application for the siting of such a facility. The impact of this type of facility upon the land use plans of the area along with the need for support facilities and housing for staff and visitors requires that the county enter into any discussions of this nature. It is suggested that such an alternative be considered and included in the development of any future plans for an expanded county tax base. However, due to the long time line associated with the planning for such a facility, the county should make this one of its first planning priorities.

CONCLUSIONS FROM STUDY

The County of Butte has numerous problems which it must resolve if it is to continue to be a viable governmental unit. These problems stem in part from decisions made by the county and its other governmental units, especially the cities, which restricted the amount of General Purpose Revenues available to the county after the passage of Proposition 13 and AB 8. However, this county has experienced inordinate growth in statutorily required programs especially AFDC, GA and Public Defenders over the last nine years. The resistance by the electorate to the funding of these programs has lead, to a large part, to their rejection of any proposed county tax increase. It was observed by the oversight advisor that the electorate recognizes that services have deteriorated in the county. However, until some action is taken regarding the extraordinary increases in programs statutorily required by the state, they will continue to resist any county tax increases.

There are alternatives available to help resolve these problems especially those of a fiscal nature. Those contained in this report were developed to allow the county to continue to operate while long range legislative solutions are developed and enacted. It is recognized that a number of these recommendations have major policy implications which could have an effect upon other counties within the state. However, the problems observed in Butte County require drastic action if a satisfactory resolution is to be found.

It will require a change in attitude and the cooperation of all interested parties to arrive at mutually agreeable solutions. Many of the problems observed have resulted from programs which have been statutorily enacted over the years, some as far back as the 1930's, which are now trying to be operated in the 1990's without any major policy changes. However, with the implementation of the suggested recommendations or others which could be developed through meaningful dialogue, the problems can be resolved satisfactorily. As oversight Advisor, I appreciated the cooperation received from officials from county and city government within the county and from interested state officials and citizenry who contributed to the data upon which this report is based.

ATTACHMENT A

Suggested Amendment to current allocation of Revenue Stabilization Funds
Budget Bill for FY 1990-91

Item XXXX-XXX-XXX (9210-101-001) - For local assistance, Local Government Financing. For assistance to counties, to be allocated using the formulas and definitions specified in Sections 16265.2 and 16265.4 (a) of the Government Code, for payment by the Controller upon authorization by the Director of Finance - - - - - -\$XX,XXX,XXX (\$15,000,000)

Provisions:

X(3) Provided, however, that the County of Butte, which is eligible for an allocation under this item, shall receive its full entitlement as prescribed by the formula contained in Government Code Section 16265.2 and shall not be subject to any pro rata reduction of that allocation because of the amount of appropriation contained in this item or due to any special allocation made to this county by the state to assist the county in overcoming any fiscal deficiencies.

ATTACHMENT B

Suggested Amendment to Budget Bill for FY 1990-91 to buy-out a portion of Butte County's share of cost for the AFDC and GA Programs

Schedule:

- (a) 10.04.010-Aid to Families with Dependent Children
 - (b) 10.04.015-Child Support Incentives
 - (c) 10.04.015-Aid for Adoption of Children
 - (d) Reimbursements
 - (e) Amount payable from the Federal Trust Fund
 - (f) Amount payable from the State Legalization Impact Assistance Grant

Provisions:

X(2)

The Department of Social Services shall administer the public assistance programs so that the counties will bear no more than the amount of welfare costs that they would be obligated to bear under the applicable provisions of the Welfare and Institutions Code, without the expenditure limitations set forth herein, and so that the amount authorized to be expended in Program 10.04, Aid to Families with Dependent Children program shall fully cover the state share of aid payments and for services under such programs for the 1990-91 fiscal year.

Provided, however, that the Department of Social Services shall ensure that the nonfederal share of the amount authorized to be expended in Program 10.04, Aid to Families with Dependent Children program and the General Assistance program carried out by the County of Butte for fiscal year 1990-91 will not exceed 3.981% of its General Purpose Revenue base calculated by the State Controller in accordance with the provisions of Government Code Section 16265.2 plus the Revenue Stabilization and Trial Court funding received by Butte County. The State Controller shall provide this information to the Department of Social Services on an estimated basis by August 1, 1990 and on a final basis by the close of the 1990-91 fiscal year.

Provided further, the Department of Social Services shall report to the Director of Finance quarterly, the additional state funds expended from this item due to the maximum nonfederal payment level granted to the County of Butte.

ATTACHMENT C

Suggested Legislation for Butte County pertaining to the resolution of an outstanding indebtedness of \$2.8 million resulting from the temporary deferral of the payment due for Schedule A Fire Services

The people of the State of California do enact as follows:

SECTION 1. The sum of two million eight hundred thousand dollars (\$2,800,000) is hereby appropriated from the General Fund to the State Controller for allocation to the County of Butte for the purpose of a loan to the county to retire the outstanding indebtedness resulting from the temporary deferment of payments due from a contract covering reimbursement for Schedule A Fire Protection Services rendered by the State Department of Forestry and Fire Protection for Butte County.

SEC. 2. The payment shall be made by the State Controller upon receiving authorization by the Director of Finance based upon the completion of a loan agreement between the County of Butte and the State of California which contains in part the following provisions:

(a) The loan shall cover a period of ten (10) years commencing on the date the loan agreement is executed.

(b) The loan shall contain provisions providing that no penalty will accrue due to the early payback of the outstanding principal.

(c) The loan shall be subject to the repayment provisions of Section 16314 of the Government Code.

SEC. 3. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order that the County of Butte be given sufficient time to develop and execute a plan to resolve its financial difficulties, it is necessary that this act take effect immediately.

ATTACHMENT D

Suggested Legislation for Butte County pertaining to the establishment of a \$10 million loan from the General Fund and the appointment of a Trustee for Butte County. - Introduce in 1990 Session

The people of the State of California do enact as follows:

SECTION 1. The sum of ten million dollars (\$10,000,000) is hereby appropriated from the General Fund to the State Controller for allocation to the County of Butte for the purpose of an emergency loan to the county, upon receiving authorization from a trustee appointed by the Governor, to be utilized to carry out the provisions of Division 1 (commencing with Section 23000) of Title 3 of Division 5 of the Government Code.

SEC. 2. (a) The Governor shall appoint a trustee who shall have recognized expertise in management and finance, and who shall be bonded, to be assigned to the County of Butte. The expenses incurred by the trustee and the costs of the bonding shall be borne by the county. The Director of Finance shall establish the terms and conditions of the employment, including the remuneration of the trustee. The trustee shall serve at the pleasure of, and report directly to, the Governor until the plan approved pursuant to Section 3 of this act has been implemented.

(b) The trustee shall monitor and review the operation of the county. The trustee shall have at his or her disposal, county staff deemed necessary to develop the plans required by this act. In addition, the trustee may utilize such state or contract staff as authorized by the Director of Finance. During the period of his or her service, the trustee may stay or rescind any action of the Board of Supervisors of Butte County that in the judgement of the trustee, may adversely affect the financial condition of the county. The trustee shall approve or disapprove all reports and other materials required from the county under the provisions of this act or as a condition of implementing the county's fiscal and management plan.

(c) For all purposes of errors and omissions and coverage by liability insurance, the trustee shall be deemed to be an employee of Butte County.

SEC. 3. By January 1, 1992, the trustee of Butte County is required to submit to the Governor and the Legislature, the following, the cost of which shall be borne by the county:

(a) A written management review conducted by county and State staff and/or a qualified management consultant or independent accounting firm approved by the Director of Finance.

(b) A plan to resolve the financial and management problems of the county. The plan shall include, but not be limited to the following:

(i) A schedule of changes in financial and management policies and practices necessary to correct all deficiencies or weaknesses identified in either an independent audit report or the management review.

(ii) A list of legislative changes which might be necessary to bring the plan to a successful resolution.

(iii) A proposal to equalize the local tax revenue between the County of Butte and the cities within the county essentially proportional to the burden of services that the county and cities must provide.

(iv) A proposal for accumulating a 3 percent reserve for economic uncertainty, as prescribed by good management practice, by June 30, 1993.

(v) A proposal for retiring any loan made to the county as a result of this legislation.

SEC. 4. (a) During the process of obtaining the audit report or management review and developing the financial and management plans, the County of Butte shall also formulate, adopt and obtain approval from the Trustee of its 1990-91 budget. Any trustee appointed by the Governor shall have access to all financial data he or she deems relevant to advise the county and to assist the county in formulating its budget and developing plans required by this act.

SEC. 5. No reimbursement shall be made from the State Mandates Claims Fund pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code for costs mandated by the state by this act.

SEC. 6. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are :

In order that funds may be dispursed to the County of Butte by the end of the current fiscal year to avoid a bankruptcy proceeding and so that a trustee may be appointed expeditiously to monitor and review the operations of the County of Butte, it is necessary that this act take effect immediately.

BUTTE COUNTY INTERVIEWEES

<u>Person</u>	<u>Classification</u>
Ed McLaughlin	County Supervisor (Durham)
Will Randolph	Chief Administrative Officer (CAO)
Jim Johansen	Auditor-Controller (elected)
Star Brown	Deputy CAO
Susan Minasian	County Counsel
Kim Gahagen	Asst. Director-Dept. of Social Welfare
Bob Mjoen	Asst. Director-Dept. of Social Welfare
Ted Cleveland	Assessor (elected)
Mike Pyeatt	Deputy Administrative Officer
Earl Eckert	Director, Personnel
Candy Grubbs	County Clerk/Recorder (elected)
Leroy Wood	Sheriff/Coroner (elected)
Dick Puelicher	Treasurer/Tax Collector (elected)
Robin Wilson	President, CSU Chico
John Sanzone	Director, CSU Center for Economic Development
Hon Patrick and Hon Rutherford	Judges-Superior Court
Wally Herring	Director, Probation Dept.
Fred Davis	Chico City Manager
Mike Hayes	Town Manager, Paradise
Dave Sanders	Financial Manager, Paradise
Linda Williams	Financial Manager, Oroville
Clay Castleberry	Interim City Manager, Oroville
Chet Ward, M.D.	Public Health Officer
Jim Botill	Director Support Services, Public Health
Alex Collin-Thomae	Director, Social Services (now deceased)
Mike Ramsey	District Attorney (elected)
Bob Peterson	Chief Investigator, District Atty.
Bettye Kircher	Director, County Planning
Bill Cheff	Director, Public Works
Ron McElroy	Div. Chief, Public Works
Josephine Terry	Director, Libraries
Nancy Brower	Assistant Director, Libraries
Howard Snyder	Chief, Environmental Unit
Garth Perry	Chairman, Grand Jury
Lee Laney	Chairman, Audit Unit Grand Jury
John Davis, Nola Taylor and Barbara Baker	Members, Audit Unit Grand Jury

Exhibit B

November 27, 1989

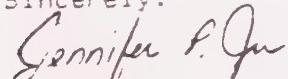
Dick Cutting, Consultant
Department of Finance
915 L Street, 6th Floor
Sacramento, CA 95814

Dear Mr. Cutting:

Attached for your review and evaluation are the workpapers and memorandum on our verification of Butte County's financial statements for the year ended June 30, 1989 and on results of the review.

If you have comments or need additional information, please call me.

Sincerely,



Jennifer F. Ju, Staff Services Management Auditor
Financial and Performance Audits
(916) 322-7823

Reviewed by Garvin J. Ivans, Audit Manager
Financial and Performance Audits
(916) 322-2985

Attachment

November 27, 1989

MEMORANDUM TO THE FILE

RE: VERIFICATION OF BUTTE COUNTY'S FINANCIAL STATEMENTS FOR THE
YEAR ENDED
JUNE 30, 1989.

SCOPE:

Dick Cutting, consultant, requested our assistance to review and verify the accuracy of the unaudited fiscal year 1988-1989 financial statements of Butte County (the County). The review was primarily a review of balances of selected funds, sources of funding of the selected funds, restrictions on the resources, and the purpose and nature of these funds. Because the financial statements are not audited, we cannot comment on them beyond the limited scope and findings of our review. In addition, we verified the 1988-1989 debt service payments for the library bonds.

RESULTS:

From our review and verification of Butte County's unaudited fiscal year 1988-1989 financial statements for the selected funds, we noted the following:

- 1) The unaudited 1988-1989 financial statements for the selected funds appear reasonable and accurate.
- 2) As of October 30, 1989, the financial statements for the Capital Projects fund were not available. Therefore, we did not verify the financial statements for the Capital Projects fund.
- 3) During fiscal year 1988-1989, the County made one library bond debt service payment on July 13, 1988 and another payment on January 9, 1989. The payments were disbursed from the library fund which was funded by fines, forfeitures, penalties, property, and sales taxes and other revenue.
- 4) The total revenue for the Road fund was short of the budgeted amount and total expenditures for the Welfare

and General fund exceeded budgeted amounts.

INTRODUCTION:

We have verified the accompanying unaudited balance sheet of Butte County as of June 30, 1989 and the related unaudited statements of revenue, expenditures and changes in fund balance for the year then ended. The financial statements for the General fund, Welfare fund, Road Operations fund, Fire Protection fund, Building Inspection fund, and Fish and Game fund are the responsibility of the County's management. The extent of our audit responsibility was to verify that the financial statements appear accurate and reasonable in order to assist Dick Cutting in his evaluation. In connection with that verification, we also reviewed applicable controls for receipting and disbursing funds. In addition, we verified the fiscal year 1988-1989 debt service payments for library bonds.

ANALYSIS:

Our review included:

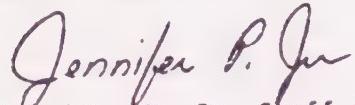
- o Tracing the items on the preliminary unaudited financial statements for the year ended June 30, 1989 to the County's accounting records of the following: General, Welfare, Road Operations, Fire Protection, Building Inspection, and Fish and Game funds.
- o Reviewing procedures for receipting and recording County funds.
- o Reviewing procedures for disbursing County funds for welfare assistance and administration.
- o Analyzing the above funds for nature, purpose, source, and restrictions.
- o Reviewing debt service payments for library bonds.
- o Analyzing the above funds' revenues and expenditures with budgeted revenues and expenditures.

CONCLUSION:

Because the above procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on any of the funds or items referred to above. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that the

specified funds or items should be adjusted. This report relates only to the funds and items specified above and does not extend to any financial statements of Butte County, taken as a whole.

This is a file memorandum for Dick Cutting's evaluation, and is not intended for other uses.



Jennifer P. Ju, Staff Services Management Auditor
Financial and Performance Audits
(916) 322-7923

COUNTY OF BUTTE
UNAUDITED BALANCE SHEET FOR SELECTED FUNDS
JUNE 30, 1968

	GENERAL FUND	WELFARE FUND	ROAD FUND	CAPITAL PROJECTS FUND*	BUILDING INSPECTION FUND	FIRE PROTECTION FUND	FISH AND GAME
ASSETS							
CASH AND INVESTMENTS	\$4,871,226	84,211	\$1,305,288	80	8645,174	\$316,072	826,284
IMPREST CASH	21,975	6,000	20	0	70	0	0
DU ^E FROM OTHER FUNDS	707,942	464,143	84,868	0	18,806	10,407	1,489
ACCOUNTS RECEIVABLE	1,326,066	0	312,644	0	8,614	0	100
PROPERTY TAXES RECEIVABLE	1,281,717	492,284	0	0	0	13,075	0
DEPOSITS WITH OTHERS	2,800	0	0	0	0	0	0
INVENTORY CONTROL	0	0	167,817	0	0	0	0
TOTAL ASSETS	\$6,211,030	8665,636	\$1,840,127	80	8675,066	\$338,657	820,796
LIABILITIES							
DU ^E TO OTHER FUNDS	8466,467	8129,724	86,804	80	81,365	8206,441	80
NOTES PAYABLE	3,160,000	0	0	0	0	0	0
ACCOUNTS PAYABLE & ACCRUED LIABILI	743,733	261,590	208,261	0	3,244	46,729	8,287
SALARIES AND BENEFITS PAYABLE	348,064	111,403	46,804	0	11,815	0	0
WARRANTS PAYABLE	0	6,106	0	0	0	0	0
DEFERRED REVENUE	1,281,717	492,284	0	0	0	13,075	0
TOTAL LIABILITIES	86,879,861	81,021,107	8257,449	80	816,444	8206,246	86,287
FUND EQUITY							
FUND BALANCE:							
RESERVED/DESIGNATED							
ENCUMBRANCE RESERVE	81,194,780	835,888	8167,808	80	818,860	880,808	80
IMPREST CASH RESERVE	21,975	6,000	20	0	70	0	0
RESERVE FOR DEPOSITS WITH OTHER	2,800	0	0	0	0	0	0
GENERAL RESERVE	800,000	0	0	0	0	0	17,048
INVENTORY RESERVE	0	0	167,817	0	0	0	0
DESIGNATED	126,000						
UNRESERVED/UNDESIGNATED	266,784	(96,165)	1,247,843	0	841,302	(8,404)	8,000
TOTAL FUND EQUITY	82,231,048	(855,469)	81,882,678	80	8687,222	874,308	827,400
TOTAL LIABILITIES AND FUND EQUITY	86,211,030	8665,636	\$1,840,127	80	8675,066	\$338,657	820,796

* - Financial statements not available.

Note: Figures from preliminary unaudited reports prepared by Butte County's management.

COUNTY OF BUTTE
 UNAUDITED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR SELECTED FUNDS
 FOR THE YEAR ENDED JUNE 30, 1969

	GENERAL FUND	WELFARE FUND	ROAD FUND	CAPITAL PROJECTS FUND *	BUILDING INSPECTION FUND	FIRE PROTECTION FUND	FISH AND GAME
REVENUES:							
TAXES	\$8,966,742	\$3,640,363	80	80	80	\$2,920,986	80
LICENSES AND PERMITS	829,862	0	120	0	986,836	0	0
FINES, FORFEITURES AND PENALTIES	889,479	0	187,733	0	0	0	0
INTEREST AND OTHER	834,326	0	48,618	0	87,718	40,201	16,812
INTERGOVERNMENTAL REVENUES:							
STATE	16,122,910	24,843	2,662,874	0	0	482,093	2,896
FEDERAL	6,269,887	27,826,630	687,964	0	0	0	0
OTHER	24,323	31,447,873	1,488,182	0	0	0	0
CHARGES FOR CURRENT SERVICES	3,841,021	1,892	101,326	0	40	23,834	0
OTHER REVENUE	189,176	34,963	31,166	0	163	28,303	0
TOTAL REVENUES	38,879,814	62,874,884	8,106,942	0	1,063,848	3,486,128	13,346
EXPENDITURES:							
CURRENT:							
GENERAL GOVERNMENT	8,516,896	0	0	0	0	0	0
PUBLIC PROTECTION	19,500,569	0	0	0	783,473	3,885,786	24,896
PUBLIC WAYS AND FACILITIES	0	0	8,813,070	0	0	0	0
HEALTH AND SANITATION	7,776,336	0	0	0	0	0	0
PUBLIC ASSISTANCE	8,648,360	63,183,966	0	0	0	0	0
EDUCATION	108,069	0	0	0	0	0	0
RECREATION	129,004	0	0	0	0	0	0
TOTAL EXPENDITURES	38,777,826	63,183,966	8,813,070	0	783,473	3,885,786	24,896
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(787,812)	(308,072)	(708,128)	0	270,076	(180,848)	(11,881)
OTHER FINANCING SOURCES (USES)							
SALE OF FIXED ASSETS	18,033	102	94,706	0	822	123	0
OPERATING TRANSFERS IN	0	0	0	0	70	0	0
OPERATING TRANSFERS OUT	(23,826)	0	0	0	0	0	0
C&AC LEASE FINANCE PROCEEDS	639,422	0	0	0	0	0	0
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	32,814	(308,070)	(841,422)	0	270,077	(180,848)	(11,881)
FUND BALANCE, JULY 1, 1968	1,873,113	163,967	2,183,933	0	877,038	243,818	28,884
PRIOR PERIOD ADJUSTMENTS	966	133	(2,201)	0	0	(8,704)	0
EQUITY TRANSFERS	324,124	99,381	42,366	0	8,217	0	0
FUND BALANCE, JUNE 30, 1969	82,231,049	(858,400)	81,582,676	80	887,222	874,309	827,400

* - Financial Statements not available.

Note: Figures from preliminary unaudited reports prepared by Butte County's management

October 26, 1989

TO: Dick Cutting - Oversight Advisor
FROM: Kerry Adlfinger
SUBJECT: Review of Butte County Property Tax Allocation System

In accordance with your request, a review was made of the Butte County Property Tax Allocation System. This review should not be considered to be an audit of the System because of the time-constraints. A complete review is scheduled by the State Controller's office in about two years.

The following describes what was done and the findings resulting from this review:

The key features of the Butte County "AB 8" property tax allocation system were over-viewed on October 24, 25, & 26, 1989. This overview was not undertaken as an "audit", since the involved time relative to the scope of the allocation process allowed only a minimum of tracing of allocations and cross checking with source documents. Nonetheless, it is possible to determine from the brief review of AB 8 print-outs and base computations if there were any system flaws or "glitches" so fundamental as to result in errors of the magnitude that could have a substantial effect upon the County's budget deficit. No such system flaws were discovered.

It was determined that:

- a) The County's 1979-80 State Assistance Payment (which is carried over from year-to-year with accompanying increment growth) was correctly adjusted in response to the 1982 Department of Finance audit findings.
- b) The County, along with many others, has continued (through 1988-89) to recalculate its AB 8 tax rate area factors each year on the basis of prior year revenues and assessed valuations, as opposed to holding such allocation factors constant from year-to-year except insofar as jurisdictional charges are involved. The Department of Finance questioned this approach in 1982 but did not ask for adjustments since the Commonality of the practice in other counties made it appropriate to refer the issue to the Legislature for policy clarification. However, no further legislative guidance was forthcoming.

The County is contracting for the development of a new AB 8 system in 1989-90 which, as we understand it, will involve constant tax rate allocation factors using 1988-89 as the base year. The impact of the County's previous methodology as compared to this new approach is not known. However, the change over will probably not have any material impact, in either a positive or negative fashion, upon the County's budget situation.

- c) The County Auditor-Controller's Office has reserved approximately \$350,000 for possible payment to various cities. This amount represents a preliminary estimate of the cumulative amount due cities since 1979-80, for not carrying the allocation impacts of all city annexations into years subsequent to the annexation. This oversight resulted from a clerical error in selecting incorrect prior year EDP print-outs for input into subsequent year EDP computations.

Approximately \$250,000 of the \$350,000 is intended for retroactive adjustments. To our knowledge there is no statewide policy on whether good-faith AB 8 errors must be corrected on a retroactive basis. Errors in other counties which have adversely impacted the State General Fund (by reducing property tax allocations to school entities) have, typically, been forgiven by the State through special legislation. On the other hand, retroactive adjustments for errors which have had primarily local impact have been made by some county auditors under the assumption that allocation statutes are binding. Even here, however, at least one county and possibly others have opposed such adjustments under the theory that the County Auditor-Controller's Office does not have the legal authority to make retroactive adjustments.

- d) It was determined through discussion that prior year revenues which have driven the system were gross of both redevelopment and augmentation fund re-allocations. This method is appropriate to prevent any "double-counting" of such re-allocations. (Put simply, the full impact of the redevelopment and augmentation fund re-allocations are accounted for each year, and, therefore, the prior year revenues should not reflect any impact from redevelopment or augmentation re-allocations.)
- e) One apparent technical problem was discovered in the handling of jurisdictional changes such as annexations. Specifically, it was determined that in some cases the assessed valuation from a "parent" or originating tax rate area was transferred out to the new tax rate areas in such a way that the total assessed valuation in the new tax rate areas and that remaining in the originating tax rate area exceeded what was available in the geographical area of the jurisdictional change. In other cases, however, the transfer of assessed valuation was correctly accomplished. This matter was referred to the Auditor-Controller's Office for determination of the source of the problem (e.g., system design, clerical, key-entry, etc.); the scope of the problem (e.g., number of years involved and the number of jurisdictional changes); and, finally, the materiality of the problem. Re-allocations resulting from corrections of this problem would probably not have any material impact upon the budget deficit.

* * *

We wish to acknowledge the full cooperation of the Auditor-Controller's Office in facilitating and supplying information for this review.

LR:01531

SECTION NO. 4
SALARY PLAN FOR ELECTED AND APPOINTED OFFICIALS

Exhibit D

REFERENCE: A Salary Plan for Appointed Department Heads.

SALARY RANGE	BIWEEKLY SALARY	MONTHLY SALARY	ANNUAL SALARY	STEP	CLASS CODE	CLASSIFICATION TITLE
02	1153	2498	29,978	5	0161	AGRICULTURAL COMMISSIONER
86	1272	2756	33,072	5	0163	AIR POLLUTION CONTROL OFFICER
FLAT			63,500	5	0111	CHIEF ADMINISTRATIVE OFFICER
06	1567	3351	40,222	5	0132	CHIEF PROBATION OFFICER
FLAT			60,000	5	0135	COUNTY COUNSEL
87	2022	4381	52,572	5	0177	COUNTY WELFARE DIRECTOR
04	1472	3189	38,272	5	0152	DIRECTOR OF LIBRARIES
05	1508	3267	39,208	5	0145	DIRECTOR OF MENTAL HEALTH
07	1622	3514	42,172	5	0116	DIRECTOR OF PERSONNEL
08	1654	3605	43,264	5	0124	DIRECTOR OF PLANNING
10	2022	4381	52,572	5	0126	DIRECTOR OF PUBLIC WORKS
12	2587	5605	67,262	5	0143	HEALTH OFFICER
01	1099	2381	28,574	5	0173	PUBLIC GUARDIAN - PUBLIC ADMINISTRATOR
					0162	SEALER OF WEIGHTS & MEASURES
FLAT \$346 BIWEEKLY						

REFERENCE: B For Elective Officers with Range and Step Assignments.

SALARY RANGE	BIWEEKLY SALARY	MONTHLY SALARY	ANNUAL SALARY	STEP	CLASS CODE	CLASSIFICATION TITLE
07	1622	3514	\$42,172	5	0211	ASSESSOR
08	1664	3605	\$43,264	5	0212	AUDITOR-CONTROLLER
03	1436	3111	\$37,336	5	0251	CLERK-RECORDER
FLAT			\$55,000		0236	DISTRICT ATTORNEY
09	1791	3880	\$46,566	5	0239	SHERIFF-CORONER
03	1436	3111	\$37,336	5	0214	TREASURER-TAX COLLECTOR

REFERENCE: C For Elective Officers with Flat Rate Assignments Set by Statute.

YEARLY SALARY	CLASS CODE	CLASSIFICATION TITLE
\$82,054	0226	MUNICIPAL COURT JUDGE
\$89,851 (County Share \$7,500)	0229	SUPERIOR COURT JUDGE

REFERENCE: D Appointed and elected officials shown in Reference A and B of this section, who are members of the Public Employees' Retirement System, may elect to receive County payment of the member's share of the retirement cost or in lieu an additional percentage applied to their biweekly wage. The additional wage, when combined with the related wage overhead cost, shall not exceed the amount of the County retirement contribution to the member's share of the retirement cost.

NOTE: All salary amounts for References A and B are Step 5 of the salary range, except for flat rates as noted.

U.C. BERKELEY LIBRARIES



C124909553

